



Coming to America - Challenges for Chinese OEMs

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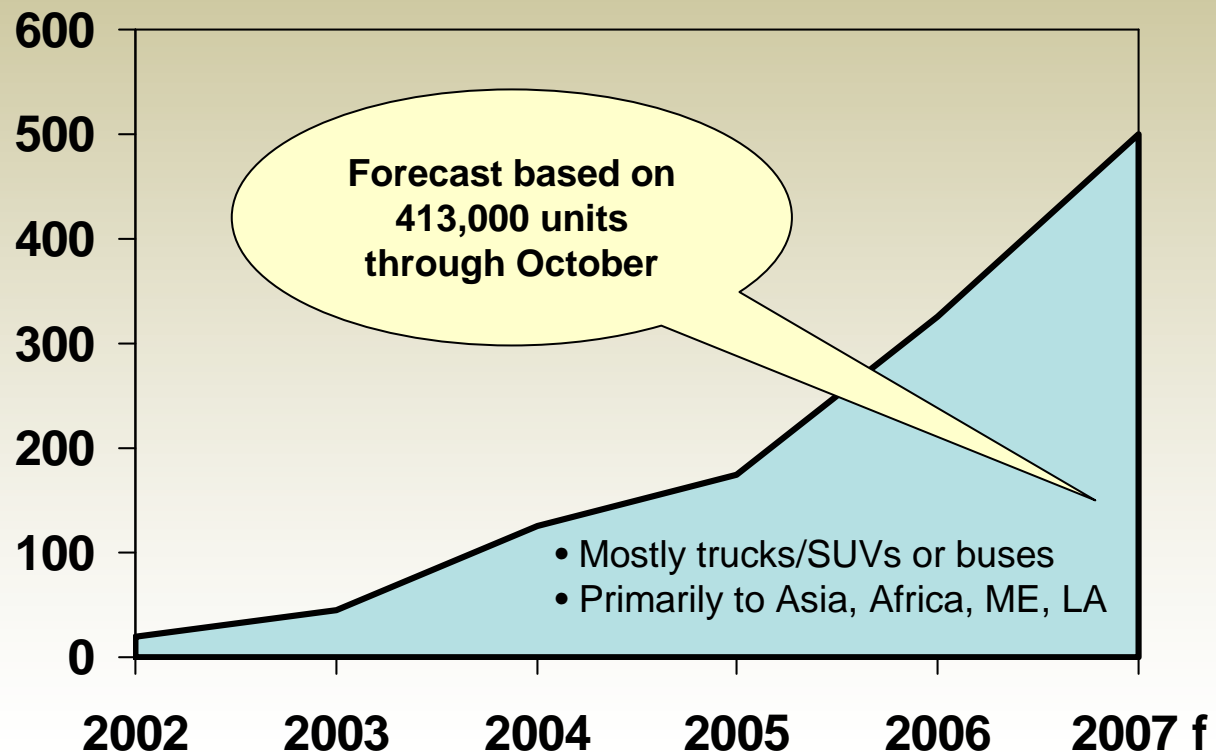
Contents

- A (very) few facts about Chinese vehicle exports
- Challenges facing a new entrant to the US market
- Comments going forward



A few facts

Chinese vehicle exports, thousands of units



Source: China Association of Automobile Manufacturers



Why export?

Since the Chinese domestic market is booming, why export?

- Industry role models are export-driven: Japan, Korea
- A \$5,000 car: pricey in China, cheap in America?
- A matter of national pride?
- “Sold in America” validates the brand back home?
- Domestic market may cool off?
- Is there a boost to the company share price?
- Other reasons?



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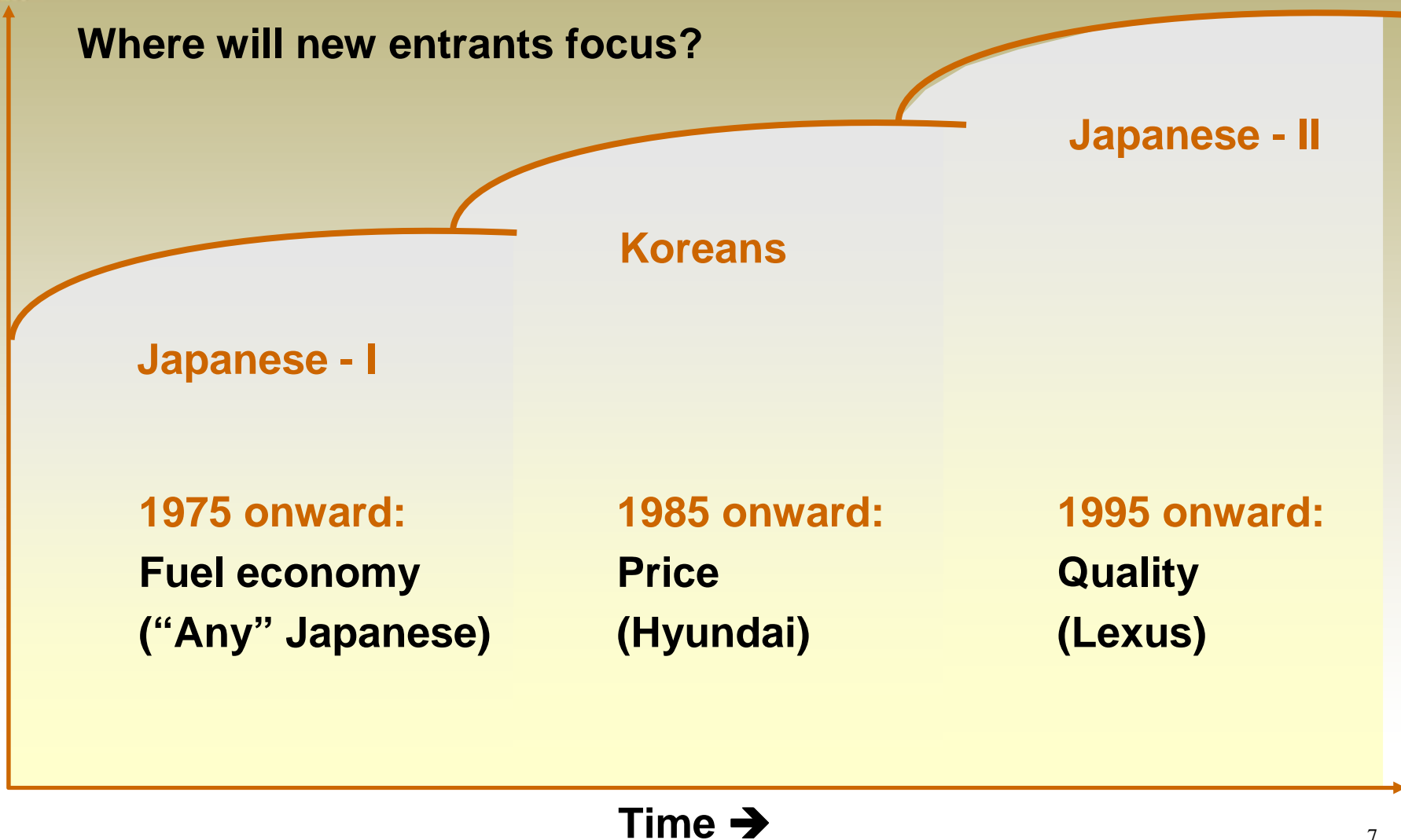



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Challenges facing a new entrant to the US market

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- Distribution: the cost of building out the network

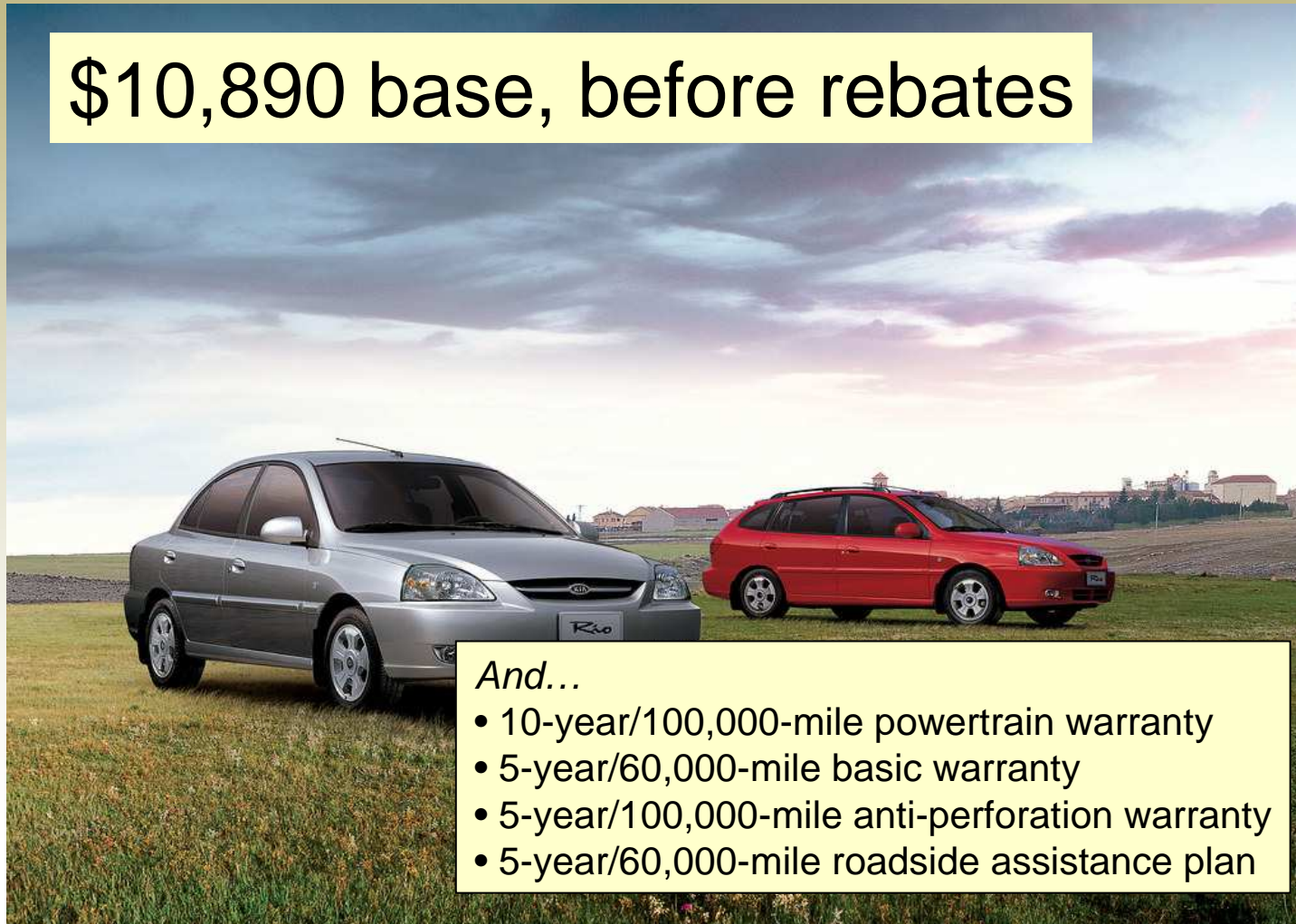
Value proposition: Why buy a Chinese car?





Is there room “beneath” the Korean price point? Kia Rio example

\$10,890 base, before rebates



And...

- 10-year/100,000-mile powertrain warranty
- 5-year/60,000-mile basic warranty
- 5-year/100,000-mile anti-perforation warranty
- 5-year/60,000-mile roadside assistance plan

Value Proposition: Time for a New One?

The familiar “price war” route?...

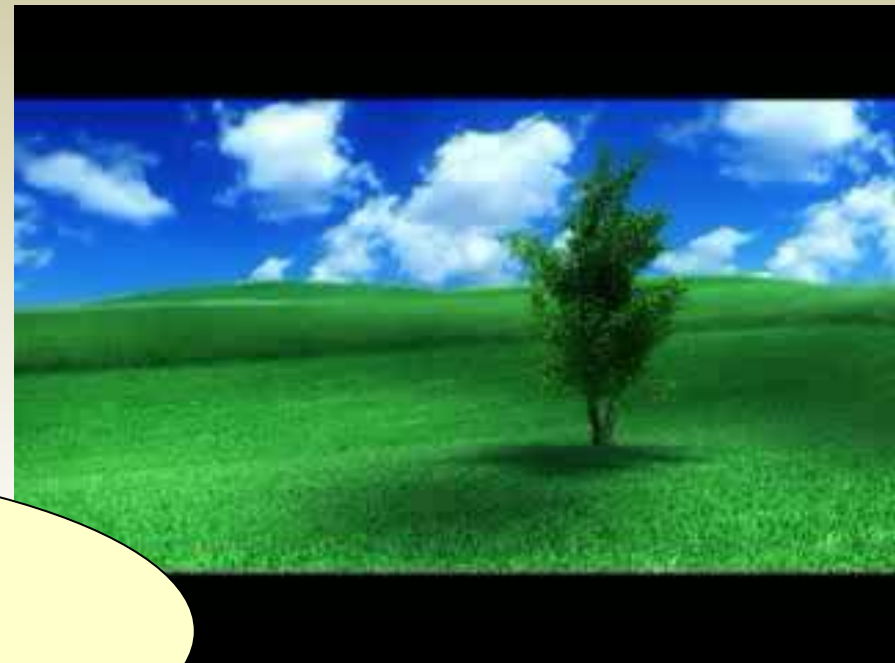
..or the “green” route?

CARFAM
\$DOWN*
IS NOT A REQUIREMENT

ABRAHAM

'07 TOYOTA FJ CRUISER AUTO, A/C, AM/FM, CD, CRUISE, TILT, ABS, TINT/WIND, 4 DOOR. #10028396 PAYMENT \$199*	'04 HYUNDAI SANTA FE AUTO, A/C, AM/FM, CD, CRUISE, TILT, ABS, TINT/WIND, 4 DR. PAYMENT \$79*	'06 HYUNDAI SONATA AUTO, A/C, ALL POWER, AM/FM, CD, CRUISE, TILT, ABS, TINT/WIND, 4 DOORS. #91154082 PAYMENT \$179*	
'05 CHRYSLER 300 AUTO, A/C, PWR. MIRROR, CD, CRUISE, TILT, ABS, TINT/WIND, 4 DR. #11181 PAYMENT \$199*	'02 VOLKSWAGEN BEETLE GLS 5 SPEED, A/C, CD, CRUISE, TILT, ABS, AM/FM, SUNROOF. #28634225 PAYMENT \$109*	'06 ACURA TL AUTO, A/C, CD, CRUISE, TILT, ABS, AM/FM, TINT/WIND, SURFACE LEATHER PAYMENT \$189*	'06 HYUNDAI TIBURON GT AUTO, A/C, ALL POWER, CD, CRUISE, TILT, ABS, TINT/WIND, SUNROOF. #64223561 PAYMENT \$175*
'00 PAYMENT \$13,998*	'02 SATURN ION AUTO, A/C, W/BLT, 4 DR. PAYMENT \$157*		

ON EVERY 15 DAYS



Are there other alternative value propositions?



Homologation: costs of entry are high

The cost of preparing cars to meet US regs & specs: the example of the Lotus Elise

Time (months):

9 to redesign; 10 to do new tools; 8 for durability and performance testing; 6 for validation; 2 for pre-production builds ... with phase overlap: 16 months.

Activities:

1,200 hours on the dynamometer; 500,000 miles on the road; tests included evaporative and exhaust emissions, ride & handling, climate, crash, pavement, low-speed durability, high-speed durability, hot test in Arizona, cold test in Sweden, alpine climb/descend at Nurburgring, wind tunnel, brakes, NVH (noise vibration harshness)

Cost:

\$25 million in tooling and parts changes; 20 engineers full-time for over a year ; \$10 million in testing

Total: \$50 million

Source: Lotus, news clippings



Image: how to overcome incumbents?

Over-riding reason to buy a Chinese car: price (75%); second reason: features others charge for are standard (15%)

Japanese and Korean owners/intenders are most likely to consider Chinese (Hyundai is the target, not Chevrolet?)

“Slightly” lower quality is acceptable to these buyers

Consideration drops off rapidly as vehicle size goes up, and is almost absent for mid- and large-size cars, SUVs, and pickups: must your entry be only in compact cars?

(Note: It is not easy for *anyone*: Ford bought Jaguar in 1989 and has not succeeded in making it successful.)

Source: CNW survey data

Used Cars: the “hidden” competitor

The used car market in America is *highly* developed:

- 45,000,000 units annually
- Average price at independent dealer is \$8,600
- In 2000 only 10% of buyers of Korean cars entered the market *intending* to buy new
- One reason many are purchasing Europe first?



Stock # 4824552 Gastonia
**2004 Chevrolet Cavalier 4D
Sedan**
White

- Plus:**
- **Inspected**
 - **Guaranteed Clean Title**
 - **5-day Money Back Guarantee**
 - **30-day Limited Warranty**

Source: CNW, CarMax, AD



Launch costs and dealerization

Even with the perfect car ready to roll, setting up the distribution network can consume vast amounts of time and money.

- A nationwide servicing network soon in place (even if the launch states are few in number), including a parts support network that allows for timely delivery of

- A headquarters (and a portside up

- A pre-arranged bank partner to have poor

- Various product liability interface parts, advertising

- Last but not least, a brand in a cluttered market: new costs

Examples: first two years' marketing spend, adjusted to 2006 \$:

Lexus \$230mm

Infiniti \$120mm

Acura \$100mm

TOTAL INVESTMENT FOR FIRST SEVERAL YEARS: \$100 MM?



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Comments

- There is *no doubt* Chinese cars will be coming to the USA, in large numbers, in the next few years
- There is also *little doubt* that one or more Chinese OEMs will find success in the USA market
- However, it is likely that some entrants will either fail or incur enormous losses, and that even the “winners” *may not deliver an adequate return in investment* for many years.
- With all this in mind, it is probably most important for entering Chinese OEMs to find a *distinctive value proposition* that will lessen competitive pressures (especially against 250,000,000 used cars).