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# Retaining Car Buyers in the Rise of Shared Mobility

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## 1. Introduction

Having changed the way how people travel, development of shared mobility is also inevitably changing how people make their car purchase decision. With shared mobility as an attractive alternative to meet most mobility needs, some of existing or potential car owners may find owning a car less attractive. Even if they still prefer to own a car, they may be less willing to spend extra for an upgrade and they may find it less appealing to stay loyal to the brand of their current cars when they buy their next car.

Facing challenges arising from development of shared mobility, car companies need to reduce burden of owning a car by improving convenience, efficiency and transparency of after-sales services, and to offer products that best meet customers' specific mobility needs that shared mobility is not able to effectively address.

Specifically, domestic brands need to try even harder to close gap against foreign brands in areas such as interior and exterior design, comfort and engine performance, and to be more innovative in both product development and marketing to compete for their potential customers who are becoming increasingly demanding as they have more opportunities to experience the product of foreign brands thanks to shared mobility.

On the other hand, foreign volume brands need to identify brand-unique features that differentiate themselves from their peers to extend emotional appeal to and therefore retain their customers who are increasingly less loyal and have high inclination to shift to other foreign volume brands.  Meanwhile, they have to carefully manage their costs on their way toward differentiation to maintain their strengths in value for money.

Finally, foreign premium brands should take advantage of shared mobility to reach more customers, who can be high potential premium buyers in the future though currently cannot yet afford to own a premium car. In addition, to appeal to customers who are less willing to spend extra for big engine and luxury interior, premium brands should also keep strengthening their positioning in the entry-level premium segment.

## 2. Rise of Shared Mobility in China and How It Impacts New Car Purchase Decisions

Over the last few years, China has seen explosive growth of shared mobility. Fueled by innovation in business model, further penetration of smart phones and other mobile technology, and aggressive investment in the form of fleet build-up and cash subsidy that quickly shaped customers' sharing behavior, shared mobility has virtually changed the way how hundreds of millions of people travel within the city, and disrupt the entire public transportation industry.

Meanwhile, the rise of shared mobility is also expected to change how people make private car purchase decisions. BCG surveyed around 3,500 existing car owners from 18 cities across China to understand the impact of shared mobility on private car purchase. To explore the implications for automakers, we studied these car owners' behavior by dividing types of car brands into three categories – as we did in our 2013 report on Chinese car owners – "The Battle for Automotive Brand Loyalty in China".

- Domestic volume brands dominate the market for basic, economy vehicles typically priced at less than RMB 80,000. Along with Wuling, Changan, and Dongfeng, BYD and Great Wall are among the leading domestic volume brands.
- Foreign volume brands are cars typically priced between RMB 80,000 and RMB 250,000. While some Chinese companies market cars in this price range, the segment is dominated by foreign joint ventures that assemble vehicles in China. Several automakers, such as General Motors and VW, market separate brands at the lower and higher ends of the volume category.
- Foreign premium brands are cars at the high end of the Chinese car market, priced at RMB 250,000 and up. Cars selling for RMB 490,000 and above are regarded as "super premium". Audi, BMW and Mercedes-Benz are the clear leaders in the category whereas Porsche and Ferrari are niche super premium brands.

The following are some of the most important findings about shared mobility's impact on private car purchase based on our analyses of data gathered from our latest survey of Chinese car owners as described above.

### A. Owning a Car Becoming Less Attractive

With growth of shared mobility, many Chinese people will find a large share of their daily mobility needs can now be covered without having an own car. This brought up the question whether existing car owners will still be interested in buying their next car given the maturing of shared mobility options.

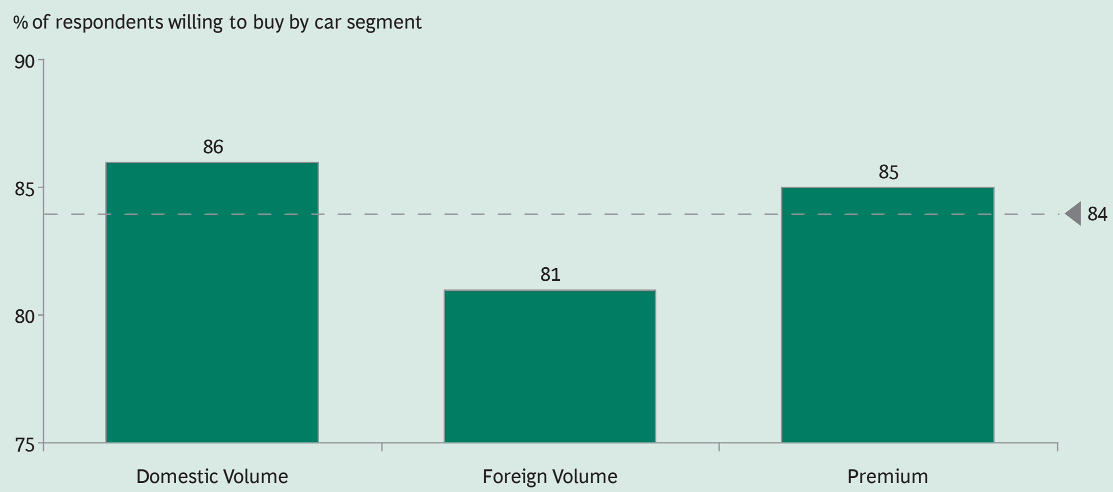
Our research indicates that only 84% of existing car owners are still willing to buy and own a car if there is well-established shared mobility options. Owners of foreign volume brands are particularly affected as almost 20% of them will choose not to buy and own a car any more, probably because shared mobility have best served their mobility needs. Many of them live in big cities and currently they mainly use their own cars for the daily commute between work and home. (See Exhibit 1.)

For those who remain willing to buy and own a car even given the maturity of shared mobility options, "Convenience of owning a car", "Shared mobility not able to meet all my mobility needs" and "Safety concerns of using shared mobility" are the most mentioned reasons behind such willingness. However, whereas "Convenience" tops the list among all car owners, the next most mentioned reasons are different across segments. (See Exhibit 2.)

For volume brands owners, especially foreign volume brand owners, "shared mobility not able to meet all my mobility needs" is the second most mentioned reason to own a car, followed by "Safety" as a distant third most mentioned reason. However, for premium

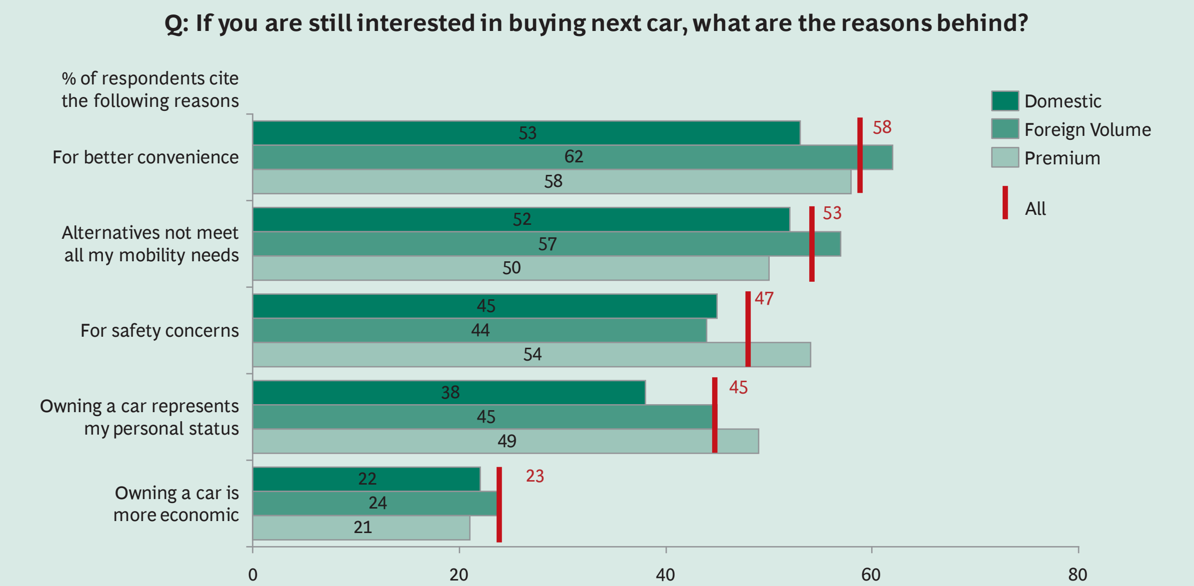
**Exhibit 1. Only 84% of Existing Car Owners Willing to Buy and Own a Car if Shared Mobility Options Are Well Established**

**Q: Will you still be willing to buy and own a car if there is well-established shared mobility options?**




**Source:** BCG auto customer survey 2016 conducted with 3,528 existing car owners.

**Exhibit 2. Convenience Consistently as the Top Reason for Owning but Next Reasons Differ Across Segments**




**Source:** BCG auto customer survey 2016 conducted with 3,528 existing car owners.

brand owners, "Safety" is the next primary reason right after "Convenience", and "Owning a car represents my personal status" is getting almost as many votes as "shared mobility not able to meet all my mobility needs" as the third most mentioned reason.

Part of the difference can be well explained by the different views toward their cars by owners in different segment. Whereas majority of volume brand owners see their cars more as a tool for transportation, many premium brand owners attach emotional feelings to their cars in addition to relying on them for transportation.

## B. Bigger and Better-branded Cars Are Getting More Popular, but Not Necessarily Those with Higher Specification

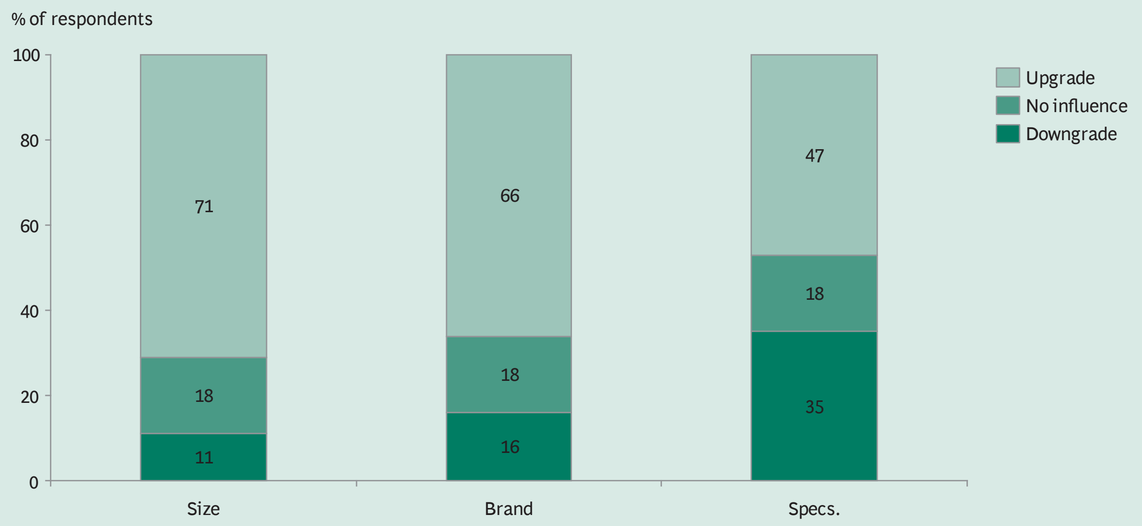
While the vast majority of automobile market growth in the past two decades was more fueled by first time buyers, the continued growth going forward will be inevitably more and more relying on existing car owners making their next car purchase. Therefore it is interesting to understand what kind of cars they are going to purchase, if they will still choose to buy one even when there are well-established shared mobility options.

It is interesting to see that whereas shared mobility may lead some existing owners to stop owning a car, it is more likely to encourage many of the rest to upgrade to a bigger and better-branded car. Since anyway shared mobility has well met these customers' daily commute needs, if they still choose to buy and own a car, probably they would like their cars to better meet their needs that shared mobility cannot fulfill, e.g. weekend excursion with family that requires a bigger car or a joyful ride with a better-branded car that displays personal taste or even just to show off.

However, with regard to specification, the story is a bit mixed. Whereas still 47% of existing car owners indicates that they will buy a car with higher specification, e.g. better engine performance and more exquisite interior decoration, a significant 35% of owners indicate they will buy a car with lower specification thanks to the development of shared mobility. Why is there a diverging view? Those choosing to buy a car with higher specification might be doing so because if they are going to buy a car, they would like to buy a car that they truly enjoy as majority of their basic mobility needs can be covered by shared mobility. On the other hand, those choosing to buy a car with lower specification may feel it unworthy to spend extra money on specification as the frequency of driving their own cars will be significantly reduced thanks to availability of shared mobility. (See Exhibit 3.)

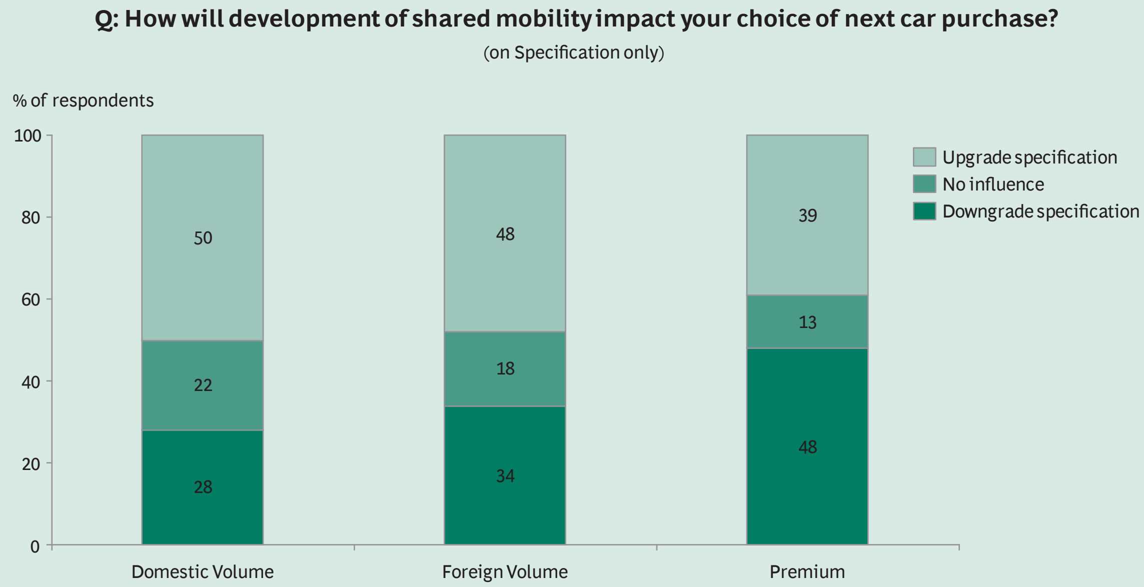
**Exhibit 3. Shared Mobility Does Have Impact on Customers' Decision to Upgrade or Downgrade when Buying next car**

**Q: How will development of shared mobility impact your choice of next car purchase?**




**Source:** BCG auto customer survey 2016 conducted with 3,528 existing car owners.

**Exhibit 4. More Premium Brand Owners Tend to Downgrade Instead of Upgrading Specifications when Buying Next Car**




**Source:** BCG auto customer survey 2016 conducted with 3,528 existing car owners.

It is worth note taking that whereas among volume brand owners, still more people would choose to upgrade than to downgrade specification, among premium brand owners, more people would choose to downgrade than to upgrade specification as impacted by development of shared mobility. (See Exhibit 4.) While this may looks counter-intuitive at the first sight, it also reflects the fact that the owners of premium brand cars are no longer all belonging to the wealthiest population that typically has little concern over budget. Instead, many of them may come from the upper middle class and are more resistant to features of low utilization than even volume brand owners after spending big to fulfill their aspirations of owning a premium brand car.

## C. Brand Loyalty to Be Further Challenged

As revealed in our 2013 report “The Battle for Automotive Brand Loyalty in China”, Chinese car customers are much less loyal to the brand of cars that they currently own compared with their peers in the Western markets and therefore it is a big challenge for OEMs to retain their customers when they buy their next car. Our new study indicates that such challenge is only going to multiply with the rise of shared mobility.

As before, we categorized Chinese car owners that we studied into four types:

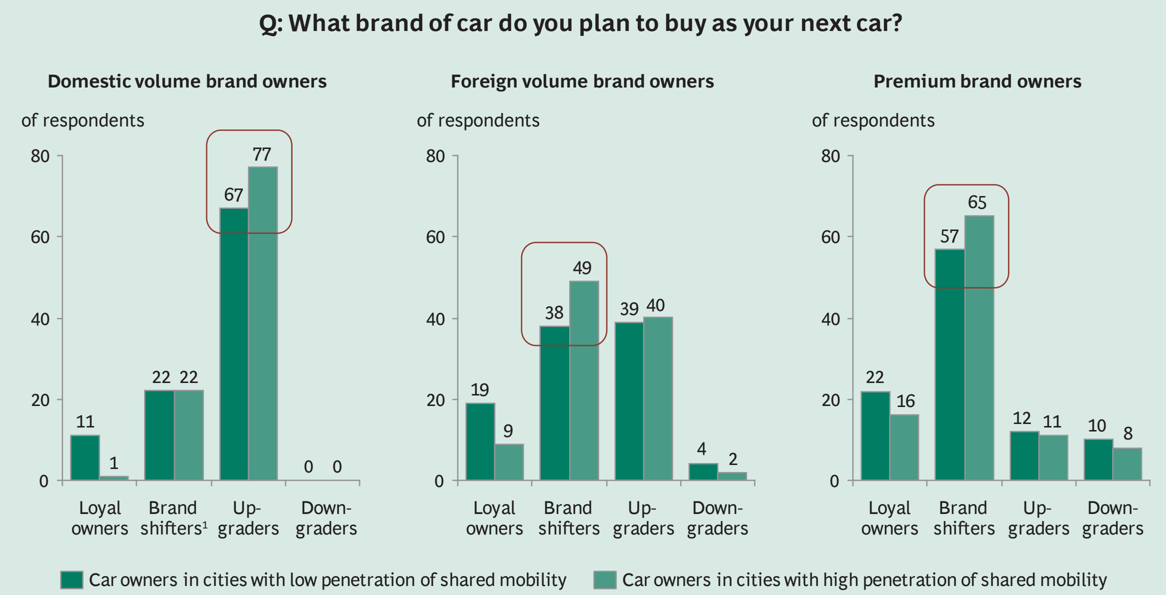
- Loyal owners – customers who plan to buy the same brand of car with the one they currently own
- Brand shifters – customers who plan to buy a different brand of car but within the same category of car that they currently own
- Upgraders – customers who plan to trade up to a car of higher category, e.g. customers who currently own a foreign volume brand car but plan to buy a premium brand car as their next car
- Downgraders – customers who plan to trade down to a car of lower category, e.g. customers who currently own a foreign volume brand car but plan to buy a domestic volume brand car as their next car

In order to evaluate shared mobility's impact on customer loyalty, we separated our survey respondents into two groups, i.e. those residing in cities with relatively high penetration of shared mobility services and those residing in cities with relatively low penetration of shared mobility services using the criteria whether Didi Chuxing, the dominant car hailing service provider in China had already offered its flagship "Didi Zhuanche" or "Didi Chaufferchauffeur?" in the city. We then analyzed the difference of the two groups in terms of their choice of next car. To ensure that the difference of choices only, or at least mainly reflect the difference on penetration of shared mobility services, we only compare choices of owners from tier 3 or tier 4 cities so that the result does not get influenced by differences between higher-tier and lower-tier cities. (See Exhibit 5.)

First of all, it is clear that car owners residing in cities with relatively high penetration of shared mobility services are less loyal, although the extent of decrease in loyalty differs across categories of owners. Share of loyal owners among domestic brand owners is most severely hit, reduced by around 10 times from 11% in cities with low penetration of shared mobility to merely 1% in cities with high penetration of shared mobility. Loyalty of foreign volume brand owners is also significantly impacted, being halved from 19% to 9%. On the other hand, the impact on premium brand owners is much less – share of loyal owners among premium brand owners dropped by less than one third from 22% to 16%, thanks to the relatively high differentiation in brand positioning among different premium brands and the fact that premium brand owners in general attach more emotional feelings to their cars than the volume car owners do as mentioned earlier.

Secondly, it is interesting to note that, whereas the rise of shared mobility has significantly reduced customer loyalty among both local volume brand owners and foreign volume brand owners, it has taken those once-loyal customers within each brand category to dif-

**Exhibit 5. Shared Mobility Seems to Lead to Lower Customer Loyalty to Currently Owned Brands**




**Source:** BCG auto customer survey 2016 conducted with 3,528 existing car owners.
[1]Car owners who plan to buy another brand within the same category when purchasing next car.

ferent destinations. More originally loyal volume domestic brand owners are becoming "upgraders" whereas more originally loyal foreign volume brand owners are becoming "brand shifters". Such difference may well reflect the different impact that shared mobility has on domestic and foreign volume brand owners.

For local volume brand owners, the biggest impact that shared mobility has is that it provides them with more access to a foreign brand car, in most cases a foreign volume brand car without owning it first. Such access can expose the gap between their own car and the foreign brand car that they get to share, which in general, is of higher quality, looking more appealing and more comfortable to ride, and more fun to drive, and thus make their appetite to upgrade to a better car much stronger, if they can afford it.

On the other hand, while availability of shared mobility also allows foreign volume brand owners more opportunities to experience cars of other brands, they may not find that much lure to upgrade to a premium car as most of the cars that they get to share belong to the same category of brands of their own, if not lower. On the other hand, given the convenience offered by shared mobility, they will drive their own car much less frequently. Given that differentiation among foreign volume brands is relatively small in general, many owners have developed their emotional bonding and loyalty, if any to the brands they own not that much because of the unique value proposition of the brand itself, but because of the long and quality time that they have spent with their cars. With such time significantly reduced over the life cycle of their current car, the aspiration to try something just different when they purchase their next car may well overweigh any emotional bonding or loyalty that they still have to their current car brand.

## 3. How Should Car Companies Respond to the Rise of Shared Mobility?

**Retaining individual owners.** With the rise of shared mobility an irreversible trend, car companies in China need to face the reality that (1) owning a car is no longer a must for many potential individual customers, especially in big cities, (2) even for those still choosing to buy a car, their willingness to pay may decline even though they aspire for bigger and better-branded cars, and (3) their existing customers are more likely to consider switching to other brands when they buy their next car.

To retain individual car buyers, car companies need to make car ownership remain attractive. Given that the benefit of owning a car is reduced as at least a portion of the person's mobility needs can be covered by shared mobility, it will be critical for car companies to make owning a car cost less. To many car owners, the biggest burden of owning a car is the money, energy and time they have to spend on after-sales maintenance. If OEMs can find ways to lower the frequency of maintenance services needed, to lower the cost of each service, and to reduce or even completely eliminate the time that the customer has to spend on each maintenance visit, for example, by leveraging mobile digital technologies to more efficiently manage maintenance needs and enhancing the standardization and transparency of the after sales maintenance process, they may find it much easier to convince people to buy a car from them.

Besides making car ownership less of a burden, car companies probably also need to make different cars, cars that exactly serve specific individual mobility purpose rather than cover a wide range of mobility needs but all in a less-than-perfect way.

Before shared mobility is a well developed option, many customers depend on their cars to fulfill majority of mobility needs ranging from daily commute to work, to driving for fun in casual times and weekend excursion. Consequently,they are looking for a well-rounded car that may not serve one of those purposes in the best way but can somehow make do for as many purposes as possible. However, with the maturing of shared mobility, many customers no longer need to have cars that can serve every purpose. Instead, since they would be able to get a different car for different purposes via shared mobility, they may want to buy a car that best serve the one purpose that shared mobility cannot conveniently fulfill. For example, sports car fans may be more willing to buy a powerful car that they won't consider buying now as they have to drive it to work every day and cannot afford the high fuel cost; Similarly, camping enthusiasts may be more willing to buy a roomy wagon just for their weekend trips even if it will be extremely difficult to find a public parking space for it in the busy cities.

**Selling to fleet customers in shared mobility business.** On the other hand, the rise of shared mobility is also creating an increasingly large new customer segment, i.e. fleet companies involved in shared mobility businesses – either the business operators themselves who choose to own the cars for sharing, or the leasing companies who lease out cars to the operators or just individual drivers.

However, when buying a car, these fleet companies can apply very different criteria than those applied by individual car buyers. Fleet customers will see cars as money-making machines that they have to invest on so as to make profit, and therefore will only be willing to pay extra for what they can charge more from their customers.

For example, the biggest category of such fleet companies will be car hailing companies (or the car leasing companies that collaborate with them) that provide customers with both a driver and a car, such as Didi Chuxing. A large portion of their businesses comes from providing mobility services to cost-conscious customers who are looking for services more convenient and faster to mass public transportation but no more expensive, or even less costly than traditional taxis. Logically, when purchasing cars for the provision of such services, the fleet companies will focus more on the Total Cost Ownership of the cars, e.g. reliability, fuel efficiency and after-sales maintenance cost and will not likely pay much extra for elegant interior, comfortable seats and advanced audio systems.

Apart from the general implications discussed above, brands of different categories will also be presented with challenges and / or opportunities more relevant to the segment that they belong to.

**Domestic volume brands.** With their customers having more opportunities to ride or even drive a foreign branded cars via shared mobility, domestic volume brands need to quickly close the performance gap between their cars and the foreign branded cars in areas that mattered (which can vary across customer segments as discussed above) so as to retain their customers.

In the past years, some Chinese brands have already made significant achievements in fundamental areas such as safety and reliability. On safety, SAIC, Qoros, Geely and Greater Wall now boast models that won four-star or even five-star safety ratings from European New Car Assessment Program or Australian New Car Assessment Program. On reliability, Roewe ranked No. 5 among all volume car brands in JD Power's 2016 China Vehicle Dependability Study and a handful of other domestic brands achieved scores better than the average score of foreign brands even though on average, domestic brands still lags behind foreign brands.

However, as our survey shows, the gap in areas beyond fundamental areas such as interior and exterior design, comfort and engine performance remain significant between domestic brands, even most of the leading ones and average foreign volume brands. In the past, gaps in such areas have probably caught less attention from the public compared with that in safety and reliability, and are less perceivable given limited chance of comparison via first-hand experience. However, such gaps are getting increasingly exposed to their customers as shared mobility will enable them to frequently compare their own cars versus the foreign branded ones that they get to ride or drive without owning them. Therefore, with disposable income and therefore affordability of their existing customers continuing to rise, domestic volume brands need to catch up quickly in these areas to prevent their customers from migrating toward foreign brands.

On the other hand, the good news is, car is becoming less a symbol of personal status for majority of customers except those of foreign premium brands. For many years, many people see owning a foreign branded car as a representation of wealth, class and taste. They wouldn't consider buying a domestic branded car as long as they can afford a foreign branded one because of not only concerns in quality, but also fear that driving a domestic branded car make can make themselves look less upper-class. Now with the linkage between what car one drives and how the person is perceived weakening, the mental barrier for many to buy and own a domestic brand car is diminishing. Therefore domestic branded car OEM will have a better chance to up-sell their products to people who can afford a foreign branded car as long as they can make their cars as competitive as foreign branded ones.

The success of Roewe RX5 exemplified how a local branded car can break into the price segments typically dominated by foreign brands with innovative and differentiating features. Dubbed as the "first ever Internet Car", RX5 is a SUV with its most advanced version selling at as much as RMB 180,000. Thanks to the highly praised YunOS for Car operating system developed by Alibaba and a wide variety of new features such as booking and paying for parking spaces online, a smarter and synched navigator system and an App that enables the driver to check the vehicle's status, start and pre-heat, and open the tailgate, RX5 became a hit in the China's highly competitive SUV market right away. Within the first 9 months from launch of RX5, a total of more than 140 k units were sold with 5 months boasting of monthly sales volume exceeding 20k, making RX5 one of the best selling model among SUVs of a price above RMB 150,000, a price threshold that most local models had found very challenging to break through.

**Foreign volume brands.** Thanks to increasing availability of shared mobility options, customers will drive less frequently and spend less time with their own cars, making it much more difficult for foreign volume brands to create subtle differentiation and therefore bonding with their customers simply through intensive use over the course of car ownership.

Therefore, to retain its customers, foreign volume brands need to create a more differentiated value proposition other than functional attributes such as quality, reliability and fuel efficiency that are commonly found in many foreign volume branded cars. They will have to build unique brand values along emotional attributes such as classic, trendy and athletic via coordinated efforts in both product development and marketing.

On the other hand, facing attack from the local brands whose cars are closing gaps with foreign volume brand cars in terms of quality, reliability and other functions but selling at more competitive prices, foreign volume brands need to relentlessly lower their costs by continuously optimizing design, localizing supplier base and streamlining operations across their organizations to stay competitive.

**Foreign premium brands.** Comparatively speaking, the rise of shared mobility is not expected to have as much impact on the sales volume of foreign premium brands as on the sales of volume brands thanks to the fact that many of the foreign premium brands customers still see owning a premium car as an important representation of their social status.

However, as the rise of shared mobility is expected to increase customers' appetite for bigger and higher-tier branded cars but to decrease their willingness to upgrade specifications, e.g. to a bigger engine or more luxury interior, foreign premium brands should probably optimize their product portfolio to cater to the changing needs of their potential customers. In that sense, some of the premium brands that are aggressively adding entry-level SUV models to their China portfolio are probably making progress in the right direction.

On the other hand, foreign premium brands could extend their brand awareness and appeal to a broader potential customer base by providing car sharing services. Previously the premium brands might find it very difficult to develop strong bonding with people who have good potential to become customers in a few years but cannot yet afford the ownership of a premium car. Now shared mobility would allow more of these potential customers to conveniently get real personal experience with a premium branded car without having to buy it first. If the experience with such experience goes right, there is a good chance that they will choose to own the same brand when they can afford it later. However, it is worth note taking that simply offering potential customers the opportunity to experience premium cars is not enough to win their heart. The key is to make sure that the experience is enjoyable and consistent with the value proposition of the brand. This depends not only on the car itself but also on the systems, processes and capabilities that are required to make the searching, booking, using and payment process smooth and efficient.

## 4. Closing Thoughts

While the rise of shared mobility is undoubtedly benefiting individual consumers by broadening their mobility choices, it is seen by many as having negative impact on the automotive OEMs. However, in our view, while inevitably some OEMs will suffer from sales volume loss and decreasing customer loyalty, well prepared OEMs may find the rise of shared mobility an opportunity to enhance access to potential customer base, differentiate against competitors and to improve value proposition to selected customer segments.

On the other hand, to seize such opportunities, OEMs need to significantly enhance some of their current capabilities. They need to know their customer needs better, develop products that best meet unique needs of specific customer segments, and to enhance the emotional appeal of their brands and products to the customers.

Moreover, if they decide to expand their business from simply selling cars to running a shared mobility services for the purposes of promoting their brand, securing sales volume and/or making additional revenue from services, they need to build up a completely different set of capabilities. They need to have a user-friendly mobile Apps that make the process of locating a car, unlocking a car, returning a car and making rental payment easy for the customers. They need to build fleet operation skills to ensure that their cars for sharing are in good condition and are parked in optimal location waiting for customers. They need to develop packaged solutions that possibly comprising financial leasing and used car sales to maximize financial return from the cars once the cars are no longer fit for car sharing business. Last but not least, many of the OEMs may need to learn to collaborate with other businesses in various areas as likely they are not going to make all of the above happen simply on their own.

In conclusion, shared mobility is expected to continue to grow, posing both challenges and opportunities to OEMs. Instead of wishing that the rise of shared mobility would slow down or ignoring the impact it will have on customers' car purchase decisions, OEMs should actively embrace and prepare for the new era of shared mobility.

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