Luxury Car Market In China

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Introduction

The business of luxury cars is considered one of the most important and largest revenue-generating markets throughout the planet. The rapidly growing economy of the country has significantly increased the buying power. The trend of purchasing new luxury cars has increased around the country. The soaring purchasing power has made people able to fulfill their desires, such as using expensive brands for mobility. This resulted in the dramatic increase in sales of luxury cars especially the German brand's sales have increased in the last couple of years. Chinese luxury cars market is creating significant revenue for brands like Audi, BMW, Mercedes, GM, Ford other expensive cars (Bartikowski et al., 2019). All these cars are manufactured their products in China as the country is the world's largest car market after the USA and Japan. However, the carmakers have recently posted steady sales growth at the end of 2018. China is the biggest market for Mercedes' luxurious cars as compared to its sales in the USA and Europe. However, they are still way behind BMW and Audi in the Chinese market. The company has decided to set up its office in Beijing, moreover, they invested huge fund on the local R & D. It is planning to operate a new market strategy that is consist of launching new models in the Chinese market and then distributed to the US and Europe markets. This brand has adopted the local marketing strategy, which has been effective so far with the adoption of its product. They have opened a plant in the territory to build Chinese models only. This strategy has clicked in the market because they are fulfilling the expectations and requirements of the local customers.

Digital Marketing And Luxury Cars

In the Chinese market, consumers are widely using advanced digital technology, so they are not easy to convince in the case of in-car connectivity services. According to Ong et al. (2017), customers in China in this digital age have unique requirements, which refers to shaping the requirements into practical provisions. Chinese customers demand that carmakers to connectivity as an essential feature; they are highly ready to pay the subscriptions as compared to the customers in the USA and Germany. The role of digital activities has increased and is used for the development of the business from a marketing perspective. To reach the audience and convey messages, companies are using digital media, and it has a strong impact on the buying behaviour of the customers. Wang et al. (2017) argued that the use of the internet and digital media has a positive impact on the buying behaviour of the client. The modern age businesses have shifted from traditional offline strategies to the era of modern digital strategies. During the last couple of years, the dealership has also adopted digital strategies for marketing activities and has concentrated on generating a higher number of leads. In marketing terms, lead generation refers to boosting the interest of consumers in a specific brand, and these interests are then converted into a purchase of that luxury car. In China, the users of mobile phones are about 1.1 billion, so all the brands in China are using this medium to reach their potential customers. All the brands are spending a huge amount of digital media advertising campaigns to become more visible, and their products are easily reachable. Chinese automobile dealers offer online sales of cars successfully. To boost the sales of luxury cars, brands are required to implement their formulated marketing strategy. To develop the awareness and reputation of a global brand in a potential market, some tactics are used to influence online customers and create the interest of people in your brand. There is an interrelationship between the marketing strategies, digital stakeholders, and awareness of customers; which can influence the sales of a brand. The most important tactics are to use very effective content and design to grab the attention of potential customers. In China, first of all, the connection is required to be established prior to any face-to-face interaction.

Content And Design

Attractive and useful content is shared on the website, videos, blogs, and other social media applications, and search engine optimization (SEO) is used to boost the flow and increase the viewers of this content on the search engines (Heang and Khan, 2015). A lot of information is required to develop proper and ideal content. These contents should have a touch of local customers; because of their fresh and interactive nature, they can produce ideal results.

Engaging Marketing Strategy

Heang and Khan revealed that social media is an influential source to enhance the sales and marketing of businesses around the world specifically in China. However, most businesses are unaware of how to utilize all the components of social media to boost their sales. It can engage customers and generate a lead; however, most businesses aren't aware of the effective use of social media networks in the Chinese market, including WeChat, Weibo and others. Rapidly growing users of social media have changed the buying behaviour of customers, and it can be highly influenced by social media marketing campaigns. In China social media users use WeChat instead of Facebook, moreover, twitter is also banned there, as an alternate people use Weibo. Google was replaced by Baidu, and finally, YouTube has an alternative to Youku for watching videos. With more and more consumers moving to use social media, car manufacturers have to get fully involved in digital media sales.

Social Media Strategy

It is firmly believed that digital channels such as social networks and mobile phones are used to make a plan for the purchase of an automobile. Researchers have found a strong and positive relationship between the use of digital marketing and the buying behaviour of consumers. In China, there is a 50 % to 70 % influence of this medium on the choice of brands and models online that the customers want to see in the showrooms. Moreover, 40 % to 50 % of people rely on the information they get online about the brands and their features.

Brand Awareness And Use Of Baidu

When a brand is launched and introduced in the Chinese market, it becomes popular on its own search engine, which is Baidu- an alternative to Google. Companies are involved in rapidly sharing content regarding the new model. It is noticed that Chinese customers ask questions when they show interest in a brand they ask questions regarding its features and other different things. So the answers to these queries are highlighted by using SEO. It is used to create a positive image of the brand by answering all the questions of the customers.

Brand awareness means to familiarize consumers with the newly launched products. Customer awareness is done through social media marketing campaigns through social media websites, including WeChat, QQ, and Weibo. Before stepping into the showroom physically, all the customers search all the relevant information regarding different vehicles. Cars.com is a global car reviews website, around the world 4 out of 5 consumers are using it on their smartphone before buying a car. Automobile brands need to create a social media platform to create an effective exposure of their brands. All the companies should display their new brands with all the important information on that plate form. It is a digital era, and consumers are switching to online shopping.

Situation Analysis

Here, we are not going to analyze the situation of a single brand of luxury cars in China market. However, we are studying the strategic marketing plan for the overall luxury cars market in the Chinese market.

Identify Opportunity

The Chinese economy is rapidly growing, and the per capita income of the people is also improving. So people can afford to purchase luxury cars because these are a sign of status around the world. Luxury cars have a growing market in China, as the income level of the people has soared. Moreover, most of the brands have shifted their factories to China to get the advantage of cheap labour and lower raw material costs. These products are first marketed in the Chinese market, as the Chinese market is a competitive market. Moreover, these brands are using a strong digital marketing campaign to convey their messages in an efficient way and grab the attention of customers. Social media marketing is the opportunity identified in the luxury car advertisement. There are certain blogs, the role of SEO, mobile applications, and social media marketing campaigns which can enhance the sales of luxury products. This is called the digital marketing campaign, using all the internet sources efficiently, creating consumer awareness, and boosting the sales of the company.

SWOT Analysis

In SWOT analysis, we analyze both the internal and external factors which are used for the betterment of the company. Here, we will find the SWOT analysis for the luxury car industry as a whole in the Chinese market.

Strength

The strength of the luxury car industry in China market is the higher income level of the people and higher per capita income of the people. So, the sales of luxury vehicles are higher due to affordability. Moreover, the production of all the luxury cars is in China so they are not importing all these brands. Mercedes, Audi, and BMW are the most selling cars in the country. The sales of Mercedes and BMW are at a great pace, and they are earning huge revenue for this huge market. Moreover, China has a strong economy and a huge population, so there are higher chances of all the brands of expensive cars in this potential market (Wang et al., 2017).

Weaknesses

In the Chinese market, the weakness of the luxury car market is that the majority of people cannot afford luxury and expensive cars. The competitive conditions are changed due to certain forces that are pressurizing certain participants in the industry to change their actions. According to Qu and Zu (2018), shifts in the growth of the industry can influence the entry and exit of certain brands in the market. These entries and exits occur as a result of the demand and supply and the strengths and weaknesses of the ventures.

Opportunity

The Chinese market has a lot of potential due to the higher per capita income of the people. The market demand for luxury cars in the country is related to a wide range of variables. These variables are not limited to the price of these luxury automobiles, personal income, and the health of the economy of the country from a broader perspective. Moreover, the economy of the country is rapidly growing, so the income level of the citizens is positively influenced. Another opportunity is the rapid changes in technology and the influence of digital marketing. People get useful information at their fingertips. Before making a decision regarding the purchase of a luxury car, people get all the useful information and features of the vehicle on the internet before making it into the showroom. Chinese are spending a huge amount to improve their lifestyles and upgrade their personal appearance in terms of using top-quality products, safety, reliability, and performance.

Threats

The market of luxury cars possesses the threat of new entrants, which can affect the sales of the existing players. The continuous competition, innovation, and entry of new products are the potential threats among the internal players. According to Zhikang (2017), competition from local brands in China is higher, which is a potential threat to multinational brands.

PESTLE Analysis

The Chinese government is protecting this industry to attract and sustain foreign investors, which directly allows them to access to Chinese market without any hindrance (Bui, 2015). Therefore, certain multinational brands are successfully doing their business in the Chinese market, including Ford, BMW, Nissan, Volkswagen, Mercedes, Audi, etc. Here, we will analyze the broader external factors that can affect the industry at a macro level.

Political Factor

The Chinese government is supporting businesses and allows multinational brands to enter the Chinese market. There are certain technicalities and obstacles that should be learned by all companies before starting a business in China. Most companies initiate business with the help of local joint ventures because the local investors are familiar with these rules and regulations. In China, the political structure is different from Western democracy, and there are many different rules and regulations set by the Chinese government. The Chinese government is supporting foreign investors to invest in the Chinese market (Shama and Aggarwal, 2019).

Economic Factor

The economy of the country is growing rapidly, and it a sustainable growth. There is a positive impact on the growing market in the luxury car industry. A strong economic position and the largest market size in the global economic environment have attracted the largest automobile manufacturers to the market.

Social Factor

China has the world’s second-largest population after India, with about 1.4 billion people. It is a huge market and has the potential because of its strong economy. The employment rate in China is the highest, and the purchasing power of the people is higher. Chinese people like to have luxury cars and branded products because they consider it a status symbol. The increase in spending of the people on luxury products has attracted multinational brands to do business in this growing market (Bartikowski and Cleveland, 2017). Organizational behaviour and business ethics are the two concepts the Chinese people use to build strong relationships; in this regard, Chinese customers and businesses are different from Europe and the USA. Companies achieve a competitive edge through the development of their network of guanxi (relationship). It is a sensible way to find local partners to begin a business in the Chinese market. Most of the multinational brands are choosing joint ventures to enter this market. It can make it easy for these foreign investors in both political procedures and administrative procedures, so the cultural differences and obstacles are minimized.

Technology

The technology used in car manufacturing is continuously upgraded. For instance, car manufacturers are now designing cars with cost-efficient, sustainable, and environment-friendly machinery to protect the environment at large. China has upgraded all its machinery and supports multinational brands to import their heavy plants. There are the least legal obligations for the installation of huge machinery. China is the largest online population around the globe with more than 772 million internet users. There are certain online business applications like Tencent, Alibaba, and Baidu. These online businesses became powerful companies with a huge turnover, so luxury carmakers can get their services to improve their sales. According to (Marketing China, 2018), the social media marketing campaign has a significant influence on the sales of the company.

Environmental Factor

The green car is a concept of manufacturing environment-friendly vehicles; this concept has not only attracted Chinese but also people around the world. Reduction in the consumption of oil, sound and air pollution, and lowering the emission of heat are the main concerns of the Environment Department of China (Wen, 2016). It is not only in China but throughout the world; businesses and environmental stakeholders are concerned about it. There are deficiencies in parking areas due to the fafast-growingace of vehicles. All these factors are considered to achieve prosperity, profitability, and respect in the global car industry. Sustainability and green products are the main focus of businesses to produce environment-friendly products. Research has shown that people prefer to do business with those ventures that are manufacturing sustainable products with sustainable processes.

Legal Factor

Legal factor is the last element of the PESTEL analysis of Luxury cars in the Chinese market. There are many laws associated with the business operations, and regulate businesses. There is certain legal documentation required to start a business, and then labour laws and environmental laws are essential to be followed. The legal factor was always an issue for foreign investors to enter the Chinese market. However, with the passage of time, the Chinese government has realized this and reduced these complicated laws to support foreign investors. Still, there are certain laws which are unclear and difficult to understand.

Porter's 5 Forces

Michael Porter's five forces are essential for any business to analyze all the threats to formulate its strategic marketing plan. It is an essential component of the strategic marketing plan.

Threats of product substitutions

This is the strongest threat for a business, that there is an alternate solution to the product you are manufacturing. In this industry, the resale of used cars is the potential substitute threat. This is a substitute sold by the dealers in addition to the sales of new cars. Dealers are now selling a significant number of used luxury cars with better prices so people prefer them, and it's a threat to the sale of new cars.

The threat of new entrants

The entry of new luxury car manufacturers is higher because of the reduced barriers and attraction policy of the Chinese government. They have revised their strict policy, and now businesses have taken an interest in this potential market. It is a big decision and requires a huge investment to enter a new market. So, entrance into the largest market like China is not an easy decision. There is a lot of information and resources required to make a successful entry into this huge market.

Intensity of rivalry

There are so many luxury brands of the automobile with their strongest products and marketing strategies that can enhance the intensity of rivalry. The cost of entry is higher, and the cost of exit is also higher, so the businesses, once they enter a market, do not leave without any solid reason. It has made the rivalry very intense. All the rival brands are manufacturing almost the same products, and the lack of diversity in the products has made the rivalry a throat-cutting in the Chinese luxury car industry. The existing brands are in a struggle to boost their market shares by using different marketing strategies (UKEssays.com, n.p).

Bargaining power of buyers

The buyers of luxury cars in China are the dealers; they purchase cars from a specific company for resale. Switching costs for a dealer are higher because of huge investments and legal requirements for signing a contract with another company. Similarly, it is not easy for a company to change its dealer. The dealer of a brand is a strong investor or group of investors with a strong business background.

Bargaining Power of suppliers

Purchase of parts, outsource an activity or manufacturing of a component, and purchase of raw materials in the automobile industry has a strong impact and influence on the business. This decision is made logically because a single wrong supplier can affect the overall quality of the business. There are hundreds of suppliers of car manufacturers. The supplier’s power is slightly diminished because of the same nature of products offered by all the competitors. However, in some raw materials, only one party has a competitive edge to produce the highest quality products. So, in this case, the supplier is considered strong and has strong bargaining power.

Implementation And Control

Formulation of a strategic marketing plan is the first step which requires research and paperwork, however, the implementation stage requires practical work. Implementation of the strategy significantly requires a strong management team and leadership qualities. For a successful implementation, a competent team is needed to be hired and trained. In the implementation stage, most organizations cannot produce 100 per cent results, which is because of certain bottlenecks in the processes. To achieve cent per cent results, control is required, which means to analyze continuously the processes, employees’ skills and abilities, and other management-related issues. Implementation of the digital marketing strategy is essential for the purchase of luxury cars.

Conclusion

Chinese market of luxury cars has a great potential due to the continuously growing economy and higher per capita income of the people. Moreover, the attitude of Chinese customers also supports the luxury automobile industry because they are eagerly spending on branded cars and other products as they consider it a symbol of status. The government initially had certain restrictions in terms of strict policies and laws. However, the government has revised its policy and made it soft for new foreign investors. Moreover, the role of digital marketing in the awareness of customers is very important. Chinese consumers are using the internet to find details about different cars, and all the details are found on the internet. Before visiting the showroom to purchase a car, consumers collect data on their desired brand through a different internet source. Their buying decision is 40 to 50 per cent influenced by the internet and the content available online. It is essential for all businesses in this industry to ensure their online presence and use attractive content to grab the attention of their customers. In addition, there are certain internal and external threats and opportunities which should be identified before expending a business in terms of market share or product design. Before making any decision regarding the market, brand or business, luxury car manufacturers should analyze all their existing strategies through SWOT analysis, PESTEL analysis, and Porter's five forces.

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