

Mind the gap: A case study of China's aftermarket transformation in the EV era

As the world's largest automotive industry, it is no surprise that China is also dominating global EV market shares. Recent statistics reveal that the country produced approximately 1.3 million EVs and sold an estimated 1.3 million units in the first quarter of 2022¹. The future paints an even stronger picture with half of the world's 20 million EV units on China's roads by 2025².

However, with the technological and mechanical disparities of EVs (compared to traditional fuel vehicles), it is only natural that industry-wide transformations are unfolding across the supply chain. Yet many

sectors are advancing at different speeds. For instance, demands for EV after-sales services are far exceeding the supply and capacity of existing stores.

This has left many players scratching their heads when envisioning the future automotive aftermarket: what does this mean for after-sales; where are the opportunities manifesting; how do we nurture talent to meet tomorrow's needs; and what does it take to survive this transition?

To get a deeper understanding of China's landscape, Messe Frankfurt spoke to **Mr Wang Hao** and **Ms Zhou Yin Yin** for their perspectives on channelling these changes in their business models.

Harson Group

Ms Zhou Yin Yin, Group Vice President

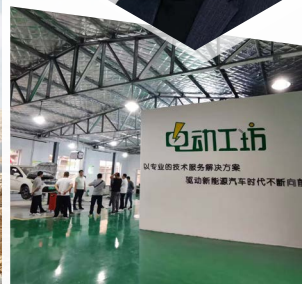
- Founded in 1998 as an independent aftermarket operator
- Approximately 300 stores across China
- Spinning off from the traditional aftermarket, the company recently established an EV division with over 100 stores that can cater for new energy after-sale services
- Partnerships with more than 20 OEMs



EIC Workshop

Mr Wang Hao, Founder

- Independent aftermarket operator
- Cippola was first set up in 2019 to provide skilled training for EVs, technical consultation and market research
- In 2021, the first EIC Workshop was officially launched nationwide
- The brand specialises in the maintenance, inspection and after-sales care of the EV power system (three-electrics: battery, motor and controllers)
- Main customers include parts manufacturers, insurance companies, mechanics and workshops



References:

1. "China Association of Automobile Manufacturers: Production and sales of new energy vehicles exceeded one million in the first quarter" Beijing Daily, 11 Apr 2022, <https://baijiahao.baidu.com/s?id=1729808167181332579&wfr=spider&for=pc> (Retrieved 4 July 2022)
2. "Bloomberg new energy finance: The global sales of new energy vehicles will exceed 20 million in 2025" Sohu News, 28 Jun 2022, http://news.sohu.com/a/561697820_115433 (Retrieved 4 July 2022)

Capturing current and future opportunities

“The next three to five years is a critical period for aftermarket service providers. Those that focus solely on the repair and maintenance of internal combustion engines must leverage and advance alongside the rapidly growing EV market. In my opinion, this is a relatively challenging task as the transformation comes with an entire systematic change of the infrastructure, skilled labour, technology, accessories, service capabilities, workshop equipment and end-users.”

Mr Wang

Two scenarios playing out amongst three-electrical component (3C) manufacturers:

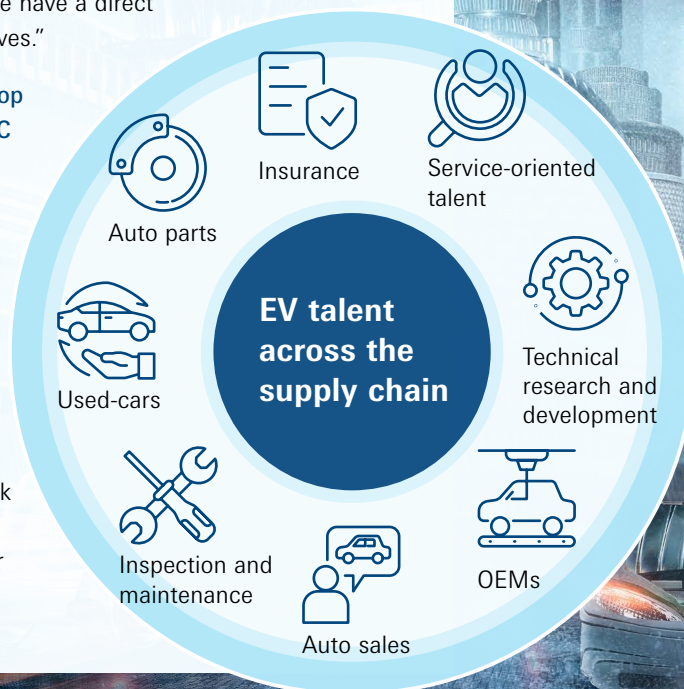
1. OEMs will not authorise 4S workshops to repair or maintain 3Cs since many do not have the ability or know-how to repair batteries, EV motors or controllers. Therefore, big companies like CATL and Gotion High-Tech contract aftermarket companies to establish a nationwide network. Each have approximately 400 to 500 outlets across the country.
2. Generally, many 3C manufacturers have smaller operations, which make it difficult to secure a nationwide after-sales network due to the cost and time of maintaining the operation. Instead, these companies provide door-to-door troubleshooting by flying technicians to the customer's store or home.

While these models satisfy current market needs, sustainable long term solutions must accommodate a wider range of EV aftermarket service providers. As an independent service centre, Ms Zhou believes the Harson Group can strategically apply current services to the next generation aftermarket:

“We are applying our knowledge and expertise in body and paint, diagnostics, tyre care and more as these services lend nicely to the rising EV market. When our customers start switching to EVs, we are confident they will continue using our centres across the country to maintain their vehicles. We have already formed strategic partnerships with a number of emerging carmakers like NIO and XPENG as an authorised workshop. Therefore, end-users can feel reassured by knowing we have a direct supply of spare parts from the manufacturers themselves.”

Taking a different perspective, Coppola's EIC Workshop fills a niche gap in the independent aftermarket for 3C repair and maintenance. Mr Wang further explained:

“In 2021, we started working with a number of 3C manufacturers as their authorised workshop, meaning we serve multiple brands at the same time. After all, the batteries, controller and motor are critical to the powertrain and drivetrain of EVs. Outsourcing their after-sales care to our company helps these manufacturers reduce costs and improve the efficiency of servicing the vehicles, which ultimately benefits the car owners. As of June 2022, the network stretches across 22 cities but our mission is to expand to at least 80 or 100 cities by the end of 2023. In order for the business to grow, we must first address the shortfall of skilled EV talent across the industry.”



The direction of 4S stores

Ms Zhou expressed that companies should take an integrated approach to meet current needs while exploring new services for the EV aftermarket:

“As an independent service centre, a key advantage is that we already have a recognised end-user network and strong reputation in the traditional aftermarket. In order to transition, I believe it is important to balance tradition and EV services as there is clearly still a solid marketplace for combustion vehicles and used-cars. We should offer our current services to satisfy the market while expanding our EV portfolio. I think a big question is: should we follow the direction that other traditional aftermarket operators are taking by switching to an EV-4S model? It is certainly an approach we are weighing up but need to evaluate the transformation to identify our competitive edge in order to invest wisely and build upon our strengths.”



Further to Ms Zhou's point, Mr Wang predicted:

“The aftermarket will be dominated by three main operational models in the future. First of all, customers will seek new chain stores, like EV-4S workshops, that enter the market with facilities offering standardised EV services. Another option are large independent service centres, normally authorised by a 3C manufacturer, with amenities for repair and maintenance. Finally, niche and smaller independent workshops will also have a strong identity in the market. These operators are highly specialised in specific areas that chain stores and service centres may not have the know-how to handle. Therefore, traditional 4S workshops may face challenges by not enhancing talent, services and operational models to have the capabilities to adapt and capture the market momentum. This may result in the less competitive brands exiting the market.”



The next big question:

How to nurture talent for tomorrow's operating environment?

Mr Wang highlighted:

"EV talent in the aftermarket is still in its infancy. The industry must join hands to generate talent and create favourable conditions for widespread transformation. Our training programme is a critical part of our business model, which we introduced as a by-product of the talent gap. The accredited certification in cooperation with the China Automobile Association builds up professional expertise from an entry level, intermediate to advance basis. We also consult with a number of insurance firms offering guidance on how to determine claims or assessments relating to EVs. This is an emerging field as most policies are still geared towards traditional vehicle types."

Ms Zhou looks at this from a wider standpoint, by stressing:

"Supportive policies and initiatives from the Government must address the shortage of skills in the automotive ecosystem in order to build a sustainable environment. This includes creating more awareness of the opportunities associated with green protection in areas like body and paint, remanufacturing and recycling of battery power units. However, there is still the perception that working in the aftermarket is a low-skilled profession. This view must change to cultivate talent across the supply chain."

An action plan of expanding talent in China's EV aftermarket:

1 Unite government, industry and educational institutions together to understand where talent should be nurtured.



2 Formulate training standards and industry benchmarks.

3 Cultivate a skilled workforce by supporting development within educational programmes that fully cater to EVs.



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If you would like to share your thoughts and opinions about the future landscape of the automotive aftermarket, please contact: auto@hongkong.messefrankfurt.com