CHINA’S CONNECTED SPENDERS & CAR DEMAND
DRIVING GROWTH OF NEW ENERGY VEHICLES

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SUMMARY: THE STORY IN NUMBERS

2015
CHINA IS LARGEST AUTO MARKET WITH LATENT NEW ENERGY VEHICLES DEMAND

331K
NEV sales
21MM overall auto market

54% NEV consumer consideration
1.6% NEV market share

2025
CONNECTED SPENDERS WILL BE CRITICAL DRIVERS OF CHINESE NEV DEMAND

710MM
Connected Spenders

97% NEV consumer consideration
59% Share of all consumer spending

GROWTH IN CONNECTED SPENDERS WILL LEAD TO...

1.75MM
NEV sales
+18 CAGR

64% NEV consideration

NEV MUST ALIGN WITH CHINESE CONNECTED SPENDERS PRIORITIES

57%
Have clear plans and goals for life

46%
Want to stay ahead of trends & be fashionable
China is the world’s largest automotive market. The China Association of Automobile Manufacturers reports that more than 21 million cars were sold in China in 2015. As the second largest consumer economy globally, and one of the fastest growing, China will have an increasingly important impact on the automotive industry. While we estimate that China’s per capita consumption was still only about $3,000 in 2015, Chinese consumer demand for luxury and higher-end vehicles has dominated this market in size and also in growth.

There is enormous potential for the passenger car market in China to grow further, as transport infrastructure continues to improve and urbanization increases in the coming years. Over 40% of the Chinese population still live in rural areas. When comparing China with the United States in 2014, there were still only 0.08 passenger cars per capita in China, versus 0.36 in the United States. And, while the United States and China have similar land areas, the United States has 25% more kilometers of paved roads.

Source: China Association of Automobile Manufacturers Bureau of Economic Analysis, Association des Constructeurs Européens d’Autos, Haver Analytics; China National Bureau of Statistics, US Federal Highway Administration, CIA World Factbook
CS ARE CRITICAL DEMAND FORCE IN CHINA

The Connected Spenders (CS), first introduced by The Demand Institute in a recent report, will play a fundamental role in driving consumer demand growth in China over the next decade. Connected Spenders in China and around the world are highly engaged across consumer categories, with an emphasis on digital engagement. We recommend that business leaders prioritize Connected Spenders as a first filter when looking for the most involved consumers in emerging markets across categories.

Two features define them. First, once they have covered basic necessities, they have spare cash that they are willing to spend on other things. Second, because they are connected to the internet, they have access to information and retail channels that enables them to participate fully in a consumer economy.

In 2015, we estimated that there were 417 million people in China—or 30% of the total population—living in Connected Spender households. These households accounted for 38% of total consumer spending, or 10 trillion yuan ($1.5 trillion). In 2014, their average annual household income was 120,600 yuan ($19,300).

SIZING THE CONNECTED SPENDERS

Source: Nielsen Global Online Survey, The World Bank, The Demand Institute
CS LEAD EMERGING CATEGORY GROWTH

China’s Connected Spenders are a relatively sophisticated group of consumers. They are more educated, urban, and younger than consumers overall, and they have higher average incomes. They are also extremely confident about their personal economic situation.

Not all have high or middle incomes, though. In 2014, 13% had monthly household income of less than 5,000 yuan ($800), or daily income of just under $30. Only 12% reported monthly household income of more than 20,000 yuan ($3,200), or just over $100 a day. So, while Connected Spenders do have spare cash, the vast majority do not have the resources to be heavy purchasers of luxury goods and services. They do, however, prefer to trade-up to better quality products.

The Connected Spenders will account for over half the total consumer spending in China over the next 10 years. This disproportionate share of spending will be even larger in emerging and evolving categories, like new energy vehicles (NEV).

CHINA’S CONNECTED SPENDERS ARE...

- Younger
  - Age distribution % of households, 2014:
    - 19-34: 43%
    - 35-49: 42%
    - 50-64: 15%

- Better educated
  - % with college ed or above, 2014:
    - 53%
    - 15%

- More affluent
  - Income distribution % of households, 2014:
    - LOW: 14%
    - MID: 67%
    - HIGH*: 72%

- More urbanized
  - % living in urban area, 2014:
    - 91%
    - 31%

Note: LOW income defined as earning a monthly income of less than $800, MID as between $800 and $3,200, and HIGH as greater than $3,200

Source: Nielsen China Consumer Confidence Survey (2014), The Demand Institute

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NEV SMALL, GROWING MARKET SECTOR

Like many emerging categories, NEV are a small but growing sector of the passenger car market in China. NEV sales grew 320% from 2013 to 2014, and another 340% from 2014 to 2015, outpacing overall car sales by a significant margin. We expect this segment of the market to continue to outpace the overall passenger market, but by how much is highly uncertain. We estimate NEV sales will be 1.75M in 2025, with potential for more. Actual sales will depend on several demand, supply, and regulatory forces.

• **Policy governing car energy usage** could be an important determinant of NEV share. Policies that regulate emissions directly or through taxation, or subsidies of purchase or usage of NEV vehicles, could lead to faster adoption of NEV by Chinese consumers. Government mandates that 30% of government car purchases be NEV, which also increases sales and overall consumer awareness. The government currently subsidizes electric car manufacturing but that is expected to phase out over the next few years.

• **Energy prices for electricity, oil, natural gas.** Long-term growth in demand for energy in the global macro economy should increase consumer demand for less expensive energy options for vehicles.

• **Transport infrastructure development**, including roads but also elements such as electric charging stations, is more extensive in China than in many emerging markets. It still has potential to grow further, and will also influence consumers’ willingness to buy cars overall and NEV in particular.

• **Demand-side forces of household income growth and urbanization growth** will enable consumers to purchase NEVs in greater numbers.

• **NEV technology** development will evolve to remove pain points and enable longer driving distances between charges, faster charging, enhanced performance.

• **Connecting NEV offerings with other emerging technologies and the overall car experience** will be critical to addressing Connected Spenders’ demand. The extent to which car manufacturers address demand will influence NEV growth.

Source: China Association of Automobile Manufacturers Bureau of Economic Analysis, The Demand Institute
CS NEV DEMAND TO GALVANIZE MARKET

The global automotive market continues to be heavily influenced by evolving technologies related to both vehicles performance and the user experience. Technologies behind NEV are prominent examples. China is likely to be at the forefront of the consumer adoption of NEV. Over half of consumers in China are interested in NEV, consistent with their overall willingness to try new products. In addition, public policy is also likely to support adoption, as the government prioritized green technologies in their latest 5-year plan and emphasized pollution reduction.

Among Chinese car buyers, Connected Spenders will dominate NEV demand growth and should be a priority segment among automotive manufacturers and post-sale service providers. Among car buyers who would consider buying NEV, 61% are Connected Spenders. In fact, nearly all—97%—of Connected Spender car buyers are interested in NEV. We project that the share of total consumer interested in NEV will grow to nearly two thirds by 2025, and three quarters of those will be Connected Spenders.

Thus, global NEV demand will be shaped by Chinese consumers, particularly by Connected Spenders. Their preferences will influence all aspects of car demand, as NEV demand intersects with consumer preferences regarding design and other car features.

SHARE CONSIDERING* NEW ENERGY VEHICLE

Note*: Includes those who are planning to purchase a car in the next 12 months and are mainly considering a new energy vehicle or may compare and consider a new energy vehicle while purchasing a petrol car.

Note**: Only takes into account growth in the Connected Spender share of population. 
Source: Nielsen China Auto Survey (2016), The Demand Institute

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CS SEEK QUALITY AND COMFORT

Connected Spenders are heavily engaged in all consumer categories in which they participate, and their automotive demand is no exception. Their interest in NEV is connected to a broader interest in owning and driving cars. For half of them, this upcoming purchase will not be their first car. They consider buying a car a way to improve their quality of life, which can include both practical and aspirational characteristics.

They are more likely to be looking for cars with quality and comfortable interior features and design, and for a dynamic, sporty driving experience. Connected Spenders are more interested in hybrid than electric vehicles, though they are still more open to electric vehicles than non-Connected Spenders. Their greater interest in hybrid vehicles indicates motivation to be part of a trend, rather than just to be energy efficient for its own sake. Practical features such as price and warranty are less important to them. They are more likely to look for foreign brands when purchasing a car, and they want to own their cars outright instead of leasing.

MAIN CONSIDERATIONS WHEN BUYING A CAR

MORE CONCERNED WITH QUALITY AND IMAGE
- Superior Quality
- Propulsion Technology
- Ride Comfort and Convenience
- Handling
- Brand Image

PRACTICAL FEATURES LESS IMPORTANT
- Fuel Economy
- Vehicle Prices
- Repair and Maintenance Costs
- Warranty Duration and Scope

Note*: Among urban households with internet access who are planning to purchase a car in the next 12 months and are considering NEV. Source: Nielsen China Auto Survey (2016), The Demand Institute
CS ARE TREND DRIVEN & ASPIRATIONAL

The Connected Spenders’ automotive selections reflect their overall lifestyle aspirations. Among all urban consumers with internet access who are planning to buy a car and are open to NEV, the Connected Spenders have a distinct set of beliefs and attitudes. They are more likely than others to seek to be cutting edge and to be the focus of attention. As cars are a visible indicator of status, and new models incorporate the latest in technology and design, it is not surprising that Connective Spenders’ automotive demand reflects these overarching priorities.

SHARE INDICATING AGREEMENT*

- HAVE CLEAR GOALS AND PLANS FOR LIFE
  - Connected Spenders: 43%
  - Other Households: 57%

- PERSONAL ABILITIES ARE MAIN FACTOR IN ACHIEVING SUCCESS
  - Connected Spenders: 39%
  - Other Households: 52%

- WANT TO STAY AHEAD OF TRENDS AND KEEP UP WITH WHAT’S FASHIONABLE
  - Connected Spenders: 29%
  - Other Households: 46%

- LIKE CHALLENGES AND PURSUING AND EXPLORING NEW THINGS
  - Connected Spenders: 24%
  - Other Households: 43%

- WANT TO BECOME THE FOCUS OF ATTENTION IN A GROUP
  - Connected Spenders: 21%
  - Other Households: 34%

- WOULD PREFER A QUIET, COMFORTABLE LIFESTYLE OVER AN ADVENTUROUS, EXCITING LIFE
  - Connected Spenders: 19%
  - Other Households: 28%

*Note*: Responding 8:10 on 110 agreement scale.
*Note**: Among urban households with internet access who are planning to purchase a car in the next 12 months and are considering NEV.
Source: Nielsen China Auto Survey (2016), The Demand Institute
The insights presented in this report have numerous implications for the Chinese and global NEV industry. We describe a few of the most important implications here.

• The Connected Spenders should be a prioritized consumer segment for the Chinese NEV industry. They will drive the vast majority of growth in demand for these vehicles over the next decade in China. Across all consumer categories, the Connected Spenders are more engaged than other consumers. They drive growth in trade-up products and adoption of new products that are more expensive, like NEV. Their demand is most important in categories where there is significant change underway, like NEV.

• Understanding the reasons for Chinese Connected Spender demand for NEV should be integrated into the overall car experience. Their interest in NEV is less about cost savings and the environment, and more about being at the leading edge of car trends, in keeping with their aspirational lifestyle. They prioritize vehicle design and performance. They are seeking the intangible benefits of owning a car that is considered technologically advanced, is at the cutting edge of trends, and signals the success of the car owner.

• NEV demand should be considered alongside growth in demand for other car-related technologies. These include the growth in connectedness of vehicles as well as driverless cars. Emerging business models, including ride-sharing and ride services (such as Didi, the Chinese version of Uber), should also be considered. These services may help drive increased demand for NEV, as they have a business incentive to minimize the cost of running a car that may not influence individual owners as much. As of now, these intermediaries are a small part of the car market and Connected Spenders still prefer car ownership, but that could shift over time.

• The Connected Spenders are not hard to reach. They overwhelmingly live in urban areas and, by definition, have internet access. They also are heavy users of media across platforms. NEV manufacturers and related industries will be able to engage these consumers to grow the category.

• International car brands have a lot to gain from understanding Chinese NEV demand. China leads the global auto industry, and Connected Spenders lead NEV demand in China. There are 1 billion Connected Spenders elsewhere in the world, and they share characteristics and demand that are similar to those in China. Thus, Connected Spenders are likely to lead NEV demand globally. Successful strategies in China will be applicable outside of China also.