COMMENTARY

consumer feedback, they are still at risk of losing market share due to an increasing number of competitive products and sliding prices. They will not be able to avoid the oncoming price war. JMC and NAVECO are likely to utilize high-end offerings to maintain their market advantage, pinch some market value from the low- and middle-end offerings, and pressure new brands.

The established second group of companies in the market will vie for their share as well. Dongfeng Yufeng and SAIC Maxus are backed by strong investors, and their potential cannot be understated. The newest third group of players such as Huanghai Raytour, Higer and King Long has yet to make a real impact on the market. Their product strength is still weak and their market strategy still unclear. Their priority now can only be to weather the storm.

Aside from internal rivalries, Euro-style light bus manufacturers are confronted with new competitors. Though the size of the Japanese-style light bus segment is shrinking, a skinny elephant is still bigger than a horse, so to speak. Jinbei Auto is still the undisputed light bus leader and it is adding high-end, high-efficiency and lightweight models to its product line. If the Japanese-style light bus makers can continue to offer large capacity designs, high gas efficiency and competitive prices, they will still pose challenges to the Euro-style light buses. Additionally, China's minivans have gotten bigger and better, moving aggressively into the urban transportation and logistics market, competing directly with Japanese-style light buses in cost and efficiency.

Huanghai Raytour

At the end of the day, quality and good word-of-mouth image can still make or break a company in the Euro-style light bus market. Liu Pengbo, director of sales for Dongfeng Yufeng, expressed during an interview that with the introduction of the Euro IV emissions standards, light bus customers are confronted with new choices and it will be a new challenge for Euro-style light bus makers. But the future of expanding urbanization and logistics needs still represents considerable opportunities, and only the survivors of these next few tumultuous years will reap the real rewards.

In the future, Liu believes that consumer needs for light buses will be more diverse and segmented. Body styling, design, comfort, efficiency and environmental friendliness will all be important. How companies tackle the issues of service for this segmentation will be the key to gaining market share. New models of Euro-style light buses will need to respond adequately to these trends, continue to address the issue of segmentation, satisfy strict emissions standards, and provide more comprehensive and professional service in order to achieve success. CBU/CAR

(Rewritten by Yuchao Wu based on author's story on Zhongguo Gongye Bao or China Industry News)

NEWS ANALYSIS

Should BYD quit making cars?

– by Mark Andrews, ***CBU/CAR*** *Guest Columnist*

Back in May bond investment guru Jeff Gundlach in an interview with *Bloomberg* said Elon Musk should get Tesla out of the car business and concentrate on being a battery supplier. Would BYD benefit from a similar move?

BYD's glory days seem well over. For a time the F3 was the best selling car in China but recent years show steep declines in sales. The first quarter of 2014 saw a disastrous 29.9 percent drop in sales from the previous year. The only silver lining was strong sales by the hybrid Qin, something the previous F3DM never achieved.

BYD's greatest handicap is its inability to design cars well. Look at most of the current range and they are still heavily inspired by other manufacturers' designs. The F3 was well known as little more than an E120 Toyota Corolla clone. However, this still is true of newer models such as the S6 which is largely a Lexus RX copy.

BYD e6

There is also a great deal of overlap and confusion amongst the range. Are F and G models really of such difference to warrant new names and identities? Does more luxury and four wheel drive really make the S7 a different car to the S6? Is the Surui really positioned so much higher as to need to continue with the F3? These issues must surely cause confusion amongst buyers and erosion of sales.

Currently BYD is the Chinese leader with hybrid and electric car technology. This is largely thanks to its origin as a battery manufacturer. Part of Gundlach's argument was that as Tesla had market leadership with battery technology, it would be able to make far more money selling these rather than trying to compete with established car manufacturers for vehicle sales.

Denza in which BYD tied up with Daimler to create a new electric vehicle shows that there is indeed a demand for BYD's technology and it is respected. Interestingly Damiler also has a tie up with Tesla and their technology will provide the drivetrain for the new electric B class. Meanwhile the Denza is based on the old B class.

BYD F6DM

Many Chinese manufacturers have plans for electric vehicles and hybrids. Currently they mainly source the battery technology from other suppliers. A123 Systems now under the ownership of Wanxiang Group supplies batteries to SAIC for the Roewe 750 hybrid and e50 electric cars.

Sales figures, however, show that currently in China there is limited demand for electric or hybrid vehicles. This means that if BYD were to go down the supplier route, it would probably be reliant on overseas demand which while rapidly growing still only makes up a tiny percentage of the world's car market. There is though the question of just how good is BYD's technology?

When Elon Musk heard BYD referred to by a *Bloomberg* reporter as a competitor to Tesla, he just laughed and said "Have you seen their car?" and went on to say he didn't think its technology was strong. Stella Li, BYD's vice president, said in an interview with CKGSB Knowledge that BYD's technology was not inferior and if anything superior and that they were ahead in producing battery packs.

China Automotive Review

★★★★★

car@chinaautoreview.com *www.chinaautoreview.com*

Editorial Staff

Yan Xing - **Publisher**
Lei Xing - **Editor-in-Chief**
Wayne W.J. Xing, Ph.D. - **Honorary Chief Editor**
Serena Zhang, Emily Liu - **Managing Editors**
Benjamin H. Jervis - **Copy Editor**
Jennifer Chen, Katrina Dong, Oliver Spiro, Mandy Li - **Reporters**
Gee Chen - **Graphic Design/Layout**
Raymond Chen, Rao Da, Zhong Shi - **Contributing Editors**
Susan Brown - **U.K. Correspondent**
William Diem - **Paris Correspondent**
Sven-Erik Lindstrand - **Scandinavian Correspondent**
Pal Negyesi - **Budapest Correspondent**
An Qingheng, Allen Furst, Xu Junkang - **Editorial Advisors**

Editorial Office

Suite 1907, Bldg.1, Kunsha Center, 16 Xinyuanli,
Chaoyang Dist., Beijing 100027
Tel.: 86 10 8468 2019 or 86 10 8468 2029
Fax: 86 10 8468 2039

Published monthly by CBU Info Resources, Inc.

ISSN 1548-1166

NEWS ANALYSIS

BYD and in particular its CEO Wang Chuanfu have a history of making self inflating statements about the company and its technology. On the basis of range alone it does seem however that BYD is inferior to Tesla. The 60 kW battery version of the Tesla Model S has the most comparable battery capacity to the BYD e6 and it manages an advertised 333 km against at best 300 km for the e6.

Starting next year BYD will begin production of a new high density battery for cars. This will add manganese to the lithium-iron phosphate cathode and is likely to lead to up to 15 percent higher energy capacity along with lower cost.

BYD's technology is not just in the area of EVs and hybrids. It was also the first domestic manufacturer to develop in house a turbocharged all aluminium alloy turbo engine and dual-clutch transmission system. The 1.5T engine produces a respectable 113 kW (152 hp). Engines and transmissions have long been a bottleneck for Chinese manufacturers. Many end up using older Mitsubishi units made in China or in the case of SAIC and BAIC engines from now defunct Western manufacturers.

Were BYD not seen as a competitor but a supplier, it could supply many of the smaller manufacturers in China which still buy in most or all of their engines. As yet few Chinese manufacturers offer cars with dual-clutch systems and so the potential market is huge.

Ultimately in China there are too many car producers. Sooner or later they will decrease through bankruptcy or mergers. Previously BYD could be considered a peer for the likes of Great Wall, Geely and Chery. However, BYD has for a number of years appeared to be going backwards with passenger car sales. A strategy of concentrating on commercial vehicle manufacturing while being a supplier of drivetrain systems for conventional cars, hybrids and EVs might prove to be the most profitable route for long-term success. CBU/CAR

Who is tampering with used car sales data?

– Battle of two market leaders comes into the limelight

– by Zhang Yan

Days after this piece was published, Cheyipai filed a lawsuit against Youxinpai for business deformation and infringement of its rights through the Haidian District Court in Beijing on September 17. – Editor

Who can boast the highest sales volume in the used car sales market? Cheyipai (*www.cheyipai.com*) or Youxinpai (*www.youxinpai.com*)?

The rivalry between the two leading auction houses has come to the open. According to the quasi-official announcement on September 1 by the China Automobile Dealers Association (CADA), Cheyipai ranked at the top based on trading volume.

But a few days prior, iResearch China announced in its Research of China's Online Used Car Sales in January-June 2014 that out of the total sales of 200,000 used cars, Youxinpai was at the top with 37 percent of total sales, while Cheyipai was second with 22.1 percent.

Two days after this announcement, Cheyipai stated that its in-house analysis yields a different conclusion. It hopes iResearch could amend its findings. Youxinpai responded by saying that iResearch's finding is very close to that of its own.

Liu Dongmei, analyst from iResearch, stated during an interview that transaction data from various platforms were taken over a period of five days for analysis. However, she also stated that although Cheyipai's data was not made available, special classified methods were used to gain access to the numbers. To which Cheyipai responded that the data iResearch used differs greatly from its own.

During CADA's monthly press conference on September 1, deputy secretary general Shen Rong referenced used car sales data in the first half of 2013 from a third-party agency, Enfodesk. Cheyipai took up 48.8 percent of the total, Youxinpai 19.6 percent, Carsing 3.9 percent and all others 27.8 percent.

According to Timer (Shanghai), an automotive consulting firm, Cheyipai sold nearly 100,000 used cars in 2013 valued at ¥5 billion ($820 million).

Yang Xuejian, CEO of Cheyipai, has expressed that as of May, Cheyipai's trade volume had already surpassed 50,000 units, its sales record in the first half of 2013. Cheyipai's outlook for the remainder of the year is to reach ¥20 billion in sales. Based on a ¥50,000 unit price, Cheyipai aims to sell more than 400,000 used cars this year. But Youxinpai has yet to release any definitive sales numbers and the company seems to have conflicting claims.

At CADA's annual conference in November 2013, Youxinpai announced that cumulative trading had surpassed 100,000 units. In April 2014, when it teamed up with the Pangda Dealer Group, this number was said to have reached 120,000 units. Based on the claim, Youxinpai's trade volume was 20,000 units from November 2013 to March 2014. But Youxinpai stated in April 2014 that its monthly sales were over 10,000 with a growth rate of 15 percent.

Currently, Youxinpai has not responded to the statistics released by CADA. In fact this is certainly not the first time the two companies have locked horns.

First conflict: Youxinpai's birth

In 2010, *bitauto.com* (NYSE: BITA) came to Cheyipai and offered an opportunity for a partnership. At the time, Cheyipai's operation model was still evolving and its core platform was the 268V standardized used car inspection. Yang Xuejian agreed to let *bitauto.com* research at Cheyipai's inspection department for half a month.

bitauto.com then asked for a 51 percent controlling ownership of a joint venture based on the 268V platform so that both companies can utilize the inspection expertise.

Yang rejected the offer, even though when *bitauto.com* expressed that it would start its own inspection platform, which led to the birth of Youxinpai.

For most people, these two companies seem quite similar. They seem to have similar structures, similar profit models, and even their names are a little alike. However, these two platforms differ greatly in the small details of their operations.

Since Youxinpai's inspection platform falls short of Cheyipai's 268V, Youxinpai is unable to vouch strongly for the condition of a used car, and is forced to focus on face-to-face sales instead of leveraging online auctions in the way Cheyipai is able to.

Face-to-face transactions are subject to the restriction of time and location. Buyer coverage and flexibility are limited and transaction time is longer. Comparatively Cheyipai's online auctions cover a much wider market.

Second conflict: Youxinpai's accusation of Cheyipai's business model

In late November of 2012, Youxinpai accused Cheyipai of secretly taking a cut of the final transaction price between sellers and buyers. In reality, Cheyipai displays a lower final sale price to the seller than to the buyer, where the difference reflects transaction and services fees. The buyer is made fully aware of these fees, but the seller is not. This is a commonly accepted business practice and ultimately the accusation was dropped by Youxinpai's investors.

Third conflict: vying for capital

Cheyipai completed its first round of funding in 2011, receiving $5 million from Morningside Ventures. In April of 2013, it received its second round of funding of $20 million.

At around the same time, Youxinpai completed its first round of funding of $30 million from Legend Capital, DCM, Bertelsmann Asia Investments and Tencent.

Yang told *Auto Business Review* that with such abundant funds price wars would surely ensue. Under pressure Cheyipai on February 14, 2014 completed a third round of funding with Sequoia Capital, Morningside Ventures, Matrix Partners China, Citic Capital, and others to the sum of $50 million.

Though the newest rounds of funding for the two are not yet complete, insiders believe that Youxinpai is hastening for another funding plan. CBU/CAR

(Rewritten by Yuchao Wu based on author's story on Qiche Shangye Pinglun or Auto Business Review)