

CANGO Auto View: China's Evolving Automobile Sales Model

SHANGHAI, Oct. 1, 2021 /[PRNewswire](#)/ -- Cango Inc. (NYSE: CANG) ("Cango" or the "Company") is issuing a bi-monthly industry insight publication called "CANGO Auto View" to bring readers, drivers and passengers up to speed on the automobile market's emerging trends.

Below is an article from the Company's 5th edition for September 2021.

Drivers of the ongoing transformation of the automobile sales model

Since the invention of the automobile, its sales model has remained generally static. Automobile manufacturers produce cars and sell them wholesale to dealers, who are then responsible for most of the retail sales to end consumers as well as after-sales services.

The first 4S store in China is now over 20 years old. A majority of today's Chinese car consumers were born in the 1990s rather than the 1960s. This new generation of car consumers grew up in the Internet age and has witnessed rapid technological advancement, resulting in very different consumption habits compared to previous generations.

Those born after the 1990s have never experienced an information gap. They dine at Haidilao, enjoy community-based group buying, and know what customer-centric services are, no matter where they live. In the new age of auto consumption, this group has identified problems with the outdated car-buying process and the so-called service experience, creating both opportunities and challenges for automobile manufacturers and dealers.

Problems with the 4S model

Individual 4S dealers are struggling as compared to car dealer groups due to increased competition, emerging new sales models and sluggish overall growth. The profit gap between individual 4S stores and the top 10 car dealer groups' stores is estimated to be at least three to five million yuan. Opening an individual 4S store requires an initial investment of 20 to 30 million yuan, and it is an illiquid investment that can be difficult to sell. Operating a 4S store also involves management challenges. According to a senior 4S store manager, if a newly-opened 4S store wants to build an internal risk control management system, it needs to formulate a huge set of management standards – as many as 6000 KPIs – which is a monumental undertaking for an independent store.

Selecting a car brand to sell is also a crucial decision when opening a 4S store. With the right brand, a 4S store can ideally secure an annual return of more than 15%, allowing the owner to recover their initial investment in just five to eight years. However, such a return is difficult to achieve and depends upon detailed channel management strategies formulated by traditional car brands over the years, such as designing a matching sales target according to the brand's market share within the store's geographical area and adjusting sales targets according to the store's historical sales.

Given these risks and challenges, successfully operating a 4S store is clearly no easy feat. Individual dealers' distress has increased in recent years as they struggle to compete for capital, management resources, and talent retention while also navigating the new age of auto consumption and younger consumers' demands.

Direct sales and new energy vehicles (NEVs)

It has become apparent that younger car consumers are open to the new direct sales model. Younger consumers are also more environmentally conscious than previous generations, driving demand for NEVs. Between January and July 2021, 1.504 million new energy vehicles were produced in China, and 1.478 million sold, both representing 200% year-over-year growth. This fast-growing market in combination with younger consumers' demand for a new sales model is driving a major shift in China's auto sales market. Certain new carmakers, such as Tesla, have adopted a direct sales model to improve user experience. With a direct sales model, customers order their car online directly from the carmaker, at a unified retail price.

Similar changes are happening all over the world. Honda Australia announced that it will discontinue its current 4S sales model beginning July 1, 2021. Existing authorized car dealers of Honda Australia will no longer sell new models; instead, customers must order cars from Honda's official website at a unified retail price. Carmakers accustomed to the 4S sales model must now adapt to online order and offline pickup, which unifies new car retail prices and limits traditional 4S store dealers' bargaining power on new car sales.

Despite the obvious trend toward direct sales, many new auto brands did not intend to penetrate the market with this model in the first place. According to some industry reports, most new automakers cannot empower

the sales channel to make profits because of their limited brand awareness and products, which means, even if the brands adopt the dealership model, it's hard to persuade dealers to participate. Although domestic NEV sales are growing rapidly, there are simply not enough brands in each region, and many traditional 4S investors are reluctant to invest heavily in a single NEV brand because of the huge risk associated with the limited sales scale.

The ever-growing NEV market, changes in consumer demand and the industry's own development needs are driving changes to the traditional car sales model across the entire automotive industry. Change to this sales model is inevitable, but the market has yet to determine what shape it will take in the future.

About Cango Inc.

Cango Inc. (NYSE: CANG) is a leading automotive transaction service platform in China connecting dealers, financial institutions, car buyers, and other industry participants. Founded in 2010 by a group of pioneers in China's automotive finance industry, the Company is headquartered in Shanghai and engages car buyers through a nationwide dealer network. The Company's services primarily consist of automotive financing facilitation, car trading transactions, and after-market services facilitation. By utilizing its competitive advantages in technology, data insights, and cloud-based infrastructure, Cango is able to connect its platform participants while bringing them a premium user experience. Cango's platform model puts it in a unique position to add value for its platform participants and business partners as the automotive and mobility markets in China continue to grow and evolve. For more information, please visit: www.cangoonline.com.

Media Contact:

Juliet Ye

Cango Inc.

Tel: +86 21 3183 5088 ext.5581

Email: pr@cangoonline.com

Twitter: https://twitter.com/Cango_Group

SOURCE Cango Inc.

<https://ir.cangoonline.com/2021-10-01-CANGO-Auto-View-Chinas-Evolving-Automobile-Sales-Model>