

CANGO Auto View: Synergies of the Traditional and Direct Sales Models

SHANGHAI, Oct. 15, 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.

With Tesla's introduction of the direct sales model and new energy vehicles (NEVs) driving sweeping change across the entire auto industry, traditional 4S dealers are struggling to adapt and remain competitive while trendsetting manufacturers look for brand differentiators. The direct sales model offers opportunities for 4S stores to leverage their strengths as resellers, service providers and more, while its pioneer integrates a more traditional strategy to increase profits.

Used NEVs: a cash cow for 4S stores

With the entire industry focused on NEV innovation, an incredibly important aspect of the NEV market is consistently overlooked – used NEVs. NEVs are widely known to have a relatively low value retention ratio, but the sales margin of used NEVs in 4S stores is generally higher than that of traditional gas-powered vehicles. According to 4S dealers, the profit margin of a second-hand NEV, which is roughly calculated by using the listed purchase and sales prices, is usually above 15%. This holds true among many brands – dealers including BYD, Weltmeister, GAC AION and Chery all claim that although there is a limited amount of used NEV sales in their 4S stores, the profit per car is quite high.

Market surveys reveal that demand for pre-owned NEVs is actually much greater than expected. Many NEV dealers said that they have sold most of their second-hand NEV stock (acquired through trade-in) to retail customers, leaving only a small portion to sell wholesale to car rental companies or online used car transaction platforms.

Most of the second-hand NEVs on the market are three to five years old. Early NEV models have a short battery life, usually less than 300 kilometers. Given the enhanced battery life of new models, the residual value of these second-hand cars has declined rapidly. They typically sell for half or sometimes as little as 20-30% of the original price, creating an enticing opportunity for traditional dealers to purchase them from trade-in customers very inexpensively and resell them for a handsome profit.

Now that many NEV manufacturers have introduced lifetime warranty policies, customers no longer need to worry about the quality of pre-owned NEVs. For example, Weltmeister launched the "Weltmeister Care+" program, allowing customers to exchange their old model for a cash coupon worth 61.8% of its original price to apply to the purchase of a new model. The used car's residual value will be determined by the dealer and reviewed by a third-party agency, after which the manufacturer will reimburse the dealer for any price difference.

Because demand for used NEVs is far greater than supply, there is no need to improve upon the current sales model to boost sales. The amount of used NEVs available in dealerships through replacement programs is far from being able to meet market demand. This is still a blue sea market. However, automakers remain open to new sales models. A NEV brand manager under a traditional car manufacturer group said that they will consider all kinds of new sales strategy, whether direct sales, a dealership model, or an advanced new idea.

Tesla: taking a page from the traditional sales model to increase profits

Faced with the ever-changing auto market, market pioneers like Tesla are constantly refining and improving their sales models. According to public sources, Tesla intends to keep its direct sales model but change the layout and size of its stores to allow for "store + repair shop," comparable to traditional 4S stores. It also intends to reduce the number of shopping mall experience stores in first tier cities and build more 4S-style outlets in areas where auto dealers are traditionally located to improve its sales and after-sales service capabilities.

Tesla has already approached investors in traditional car dealer shops and auto business areas with offers to rent their premises, to build directly-operated "store + repair shop" outlets. However, these outlets would not undertake the delivery function. Take Shanghai as an example: although Tesla operates a number of sales and service outlets there, it continues to provide most of its vehicle delivery, financing, vehicle registration, and owner training services at Shanghai's Waigaoqiao delivery center. Centralized delivery can reduce costs and help streamline the delivery process while ensuring quality customer service.

After-sales service is one of Tesla's main motivations to shift to the "store + repair shop" model. In the past,

Tesla's after-sales services were conducted by its authorized domestic service providers, which have a net profit margin of more than 20%. In Tesla's early days, when it had less control over its parts and components procurement channels, after-sales service profits were even higher. This change will allow Tesla to conduct and profit from its own after-sales services, including high-profit services such as metal painting, electromechanical maintenance and even car washes.

The dealership model will continue to be an indispensable part of the auto purchasing process, providing consumers with integrated services encompassing consultation, test drives, interaction, and delivery. Dealers must adapt to industry changes and leverage their existing strengths to remain profitable. Tesla and other NEV brands will continue to adjust and perfect the processes and systems in their operations, keeping an open mind to with respect to advanced and innovative sales models. Regardless of sales model, branding and services will remain centric to customer attraction, satisfaction and retention.

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/2021-10-15-CANGO-Auto-View-Synergies-of-the-Traditional-and-Direct-Sales-Models>