The *future* of the German automotive industry

Fact Snack 3:
Chinese car manufacturers are pushing Europeans out of the market – true or false?

Capgemini invent

Chinese car manufacturers are posing a great threat to the European car manufacturers

In recent years, there has been an upswing of Chinese car manufacturers in Europe. This leads to concerns whether they pose a significant threat to European and German car manufacturers.

As part of a series of Fact Snacks on the "Future of the German Automotive Industry", Capgemini Invent assesses whether "Chinese car manufacturers are pushing Europeans out of the European market – true or false?"

Situation

Chinese car manufacturer sales are experiencing rapid growth in the European market. Their brand awareness is steadily growing, and German customers are increasingly likely to consider Chinese brands.[1] Chinese automakers have significantly increased their market share in EU car sales in recent years (2019–2022), indicating a clear upward trend, while sales of European manufacturers are gradually declining (see figure 1).[2] Despite recent gains, Chinese cars have not yet established a strong presence in Europe, with market share increasing only slightly during the period from early 2023 (2.22%) to early 2024 (2.35%).[3] According to Transport & Environment (T&E), Chinese automakers possess the potential to attain a 20% market share in the European electric vehicle market by 2027.[4] The rise of Chinese brands is surprising because Chinese manufacturers tried to enter the European market as early as the 2000s. Back then, they failed with classic vehicle concepts and quality issues[5]. Now they are succeeding with new powertrain concepts.[6] Currently, we see 30 Chinese brands in Europe, but the number is expected to rise in the coming years.[7] The rapid market growth reminds of the rise of Japanese car manufacturers in Europe during the 1970s/80s, but with a much faster pace (see figure 2).[8]

The EU Commission has imposed a sales ban on ICE (Internal Combustion Engine) from 2035.[9] All manufacturers must therefore change their product range by this date and at the same time will maintain their dual-track production of ICE and electrified vehicles.

Figure 1: Market share of European and Chinese brands[2]

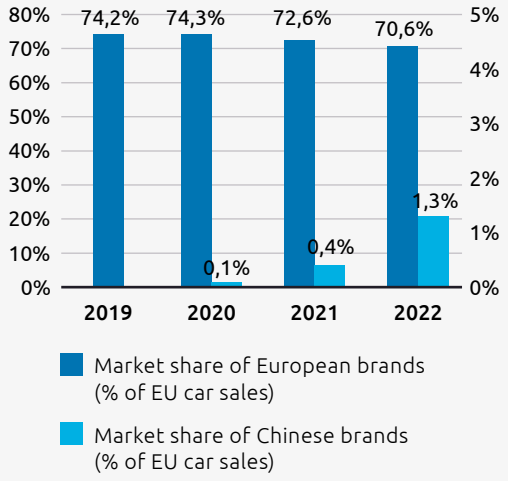
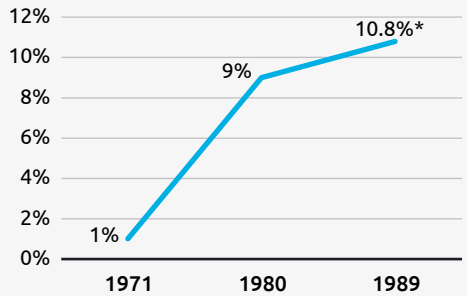


Figure 2: Market share of Japanese OEMs in Europe[35]



*Western Europe

The success of Chinese car manufacturers stems from a competitive advantage that is based on five main factors: Firstly, the Chinese government supports manufacturers with an active industrial policy.[10] Secondly, Chinese car manufacturers have a cost advantage due to low labor and energy costs.[11] Thirdly, Chinese car manufacturers have access to rare raw materials that are essential for battery production.[12] Fourthly, Chinese brands have an advantage in battery technology and production.[12] Last but not least, Chinese vehicles incorporate a high degree of digitization and possess advanced software integration, which apparently better meet customer needs and desires.[12] Given these factors, what challenges do these factors pose for European manufacturers?

Complication

The European car market is stagnating (see Fact Snack 1).[13] Chinese manufacturers can therefore only grow at the expense of established market players, which leads to cut-throat competition in Europe.[14]

The dual-track production of European manufacturers is both a blessing and a curse: On the one hand, unlike Chinese manufacturers, they are not solely dependent on electric vehicles, as the profitable ICE will finance future innovations.[15] On the other hand, this leads to greater complexity and higher structural costs.

The critical issue is the lack of a dedicated strategy from European car manufacturers to respond adequately to the Chinese threat. While China's government proactively promotes electromobility, the EU commission lacks a clear automotive industry policy.[16] European brands struggle to compete with the low production costs in China due to higher energy and labor expenses, necessitating alternative competitive advantages.

Additionally, Europe's current dependency on China's resources for battery production materials is a significant barrier.[17] Again, the EU commission is missing a strategy to reduce these dependencies. The technological gap in battery development, digitization and software integration in vehicles compared to Chinese counterparts is significant.[18] This gap can only be closed with high investments and innovative ideas.[19] If no answers to China's competitive advantage can be found, it might lead to the possibility of one or more European car manufacturers facing the risk of being pushed out of the market. In other words: Intensifying competitive pressures could lead to well-established brands exiting the market.[20]

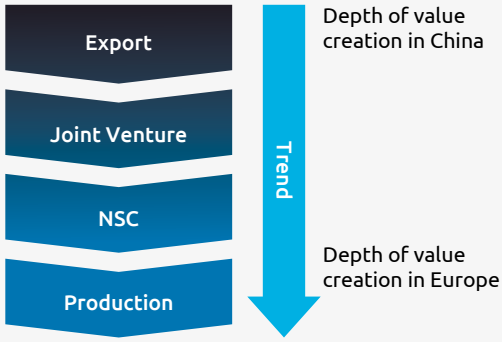
The challenge lies in whether European car manufacturers can undergo a rapid and profound transformation that responds flexibly enough to the Chinese threat without falling behind. Will the European car manufacturers manage this transformation in time?

Prognosis

By comparing the current increase in Chinese car sales with Japan's market entries since the 1970s, a prognosis of the future of the European market can be conducted. Similar to Japanese manufacturers, Chinese manufacturers pursue a clear market entry strategy. Starting from exports, through the establishment of joint ventures with local partners, to the establishment of NSCs (National Sales Companies) and their own factories to increase the depth of value creation in Europe (see figure 3).[21] In the 1970s, Japanese car manufacturers like Toyota set themselves apart with new standards in quality and equipment as well as the famous "Just-In-Time" production system, allowing efficiency advantages in production.[22] Today, Chinese manufacturers are also constantly improving their product substance, quality, and image, setting themselves apart with highly innovative technologies. One example is BYD's sponsorship of the UEFA EURO 2024 football championship in Germany, which demonstrates Chinese efforts to improve their awareness and reputation among European customers.[23] Another example is BYD's cooperation with Sixt, a leading provider for mobility services, to quickly increase the visibility of their models on the road.[24] The better product substance is reflected in prestigious awards such as the renowned Red Dot Design Award for the Jiyue 07, a joint venture between Geely and the Chinese internet giant Baidu, which was won still under the prototype name JIDU ROBO-02.[25]

As a reaction to the upswing, EU policymakers have already initiated protectionist measures, including tariff and non-tariff barriers, to mitigate the influx of inexpensive Chinese cars, reminiscent of Europe's response to Japanese imports in the 1970s.[8/26]

Figure 3: Depth of value creation of Chinese car manufacturers*

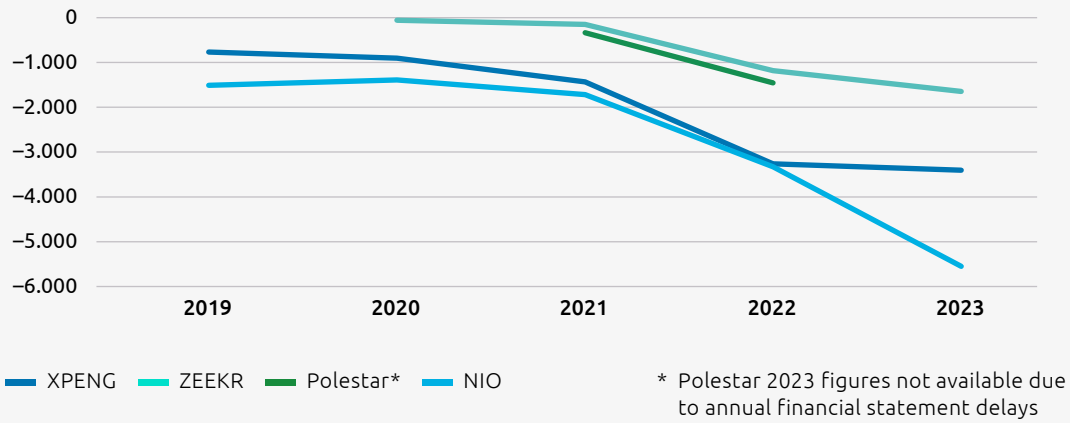


*own representation

We anticipate further protectionist measures, given the EU's imposition of extra tariffs of up to 35,3% on Chinese electric vehicles since October 30, 2024, in addition to the existing import tariffs of 10%.[27]

Capgemini views this with a frown, because protective policies can temporarily shield from an oversupply of Chinese vehicles but may reduce the pressure on European manufacturers to innovate and adapt, potentially slowing or preventing necessary transformation. Furthermore, it is anticipated that the Chinese government may implement additional countermeasures, such as imposing punitive tariffs on European vehicles. This could potentially initiate a downward spiral, negatively affecting European car manufacturers due to China's significance as a key sales market.[28]

Figure 4: Comparison of cumulative Free Cash Flow of Chinese car manufacturers in million €[31]



* Polestar 2023 figures not available due to annual financial statement delays

European car manufacturers will inevitably transform, focusing on strategic product development emphasizing quality and safety, and incorporating innovative, flexible production systems for rapid market introduction of new models. Technological differentiation through partnerships with startups and tech firms in areas like autonomous driving and sustainable mobility will be critical to maintain competitiveness and avoid marginalization.

Despite Chinese car manufacturers adapting to the European market, European firms retain an advantage in understanding European consumer needs, which they must leverage to develop customer-centric innovations and technologies. The greatest risk lies in the lower and mid-price segments, where Chinese competitors focus and offer lower prices.[29] If volume manufacturers fail to transform and become competitive, they risk to become superfluous. European premium brands, however, may feel pressure but face less existential threat due to strong customer loyalty and brand image.[30]

Nonetheless, weaknesses are evident in some Chinese car manufacturers, with a few brands potentially facing financial difficulties, given their high burn rate and negative free cash flow (see figure 4).[31] This could threaten their long-term solvency. Another weakness of Chinese manufacturers is their focus on a pure direct sales model, while European manufacturers can reach broader customer bases with their well-established hybrid omnichannel sales model, combining indirect sales with direct/online sales.[32]

Additionally, the European electric vehicle market faces challenges including the removal of state purchase incentives and insufficient charging infrastructure, which hinders customer adoption.[33] For instance, Mercedes-Benz has postponed its goal of exclusively delivering electric vehicles by 2030 due to poor sales.[34]

Should European manufacturers fail to swiftly adapt and transition to electric vehicles, preserving or growing their market share in Europe will become progressively challenging. Both manufacturers and policymakers must urgently recognize the need for action to avert the potential decline of many European automotive firms.

Our recommendation

Based on our prognosis, our recommendations are addressed to two recipients. Firstly, we advise the EU commission to combat against price dumping of Chinese car manufacturers but to refrain from protectionist measures such as additional tariffs, as this would hinder competition in innovation and weaken the position of European manufacturers worldwide. It is essential to establish conditions that ensure fair competition within the European market. This necessitates a clear competitive strategy and proactive industrial policy from European authorities, which also formulates a raw material strategy to reduce reliance on Chinese imports.

Secondly, for European car manufacturers, we recommend focusing on their longstanding strengths in traditional vehicle construction, particularly quality and safety. Volume manufacturers must significantly reduce production costs to withstand competition from China, whereas premium manufacturers should continue to enhance their brand image and lead in technological advancements. All car manufacturers must become faster and more agile, capitalizing on their thorough understanding of the European home market to develop customer-centric products. Prioritizing digitization and software integration is crucial as Chinese manufacturers rapidly progress in these areas. Immediate action is paramount to avoid falling behind.

Capgemini Invent is happy to support automobile manufacturers in the required transformation, accompanied by an experienced and competent team with the necessary strategy adjustment, process optimization, implementation of new technologies to increase efficiency such as GenAI, cost reduction strategies, innovation promotion, change management and digitization.

If you want to find out more about Capgemini's offerings, then contact the authors.

Contact information

Our experts are looking forward to discuss with you!

Tim Eberhard
Senior Director
Invent Germany
Lübecker Straße 128
22087 Hamburg

+49 151 5447 6486

tim.eberhard@capgemini.com

Dr. Ralph Hemeier
Senior Manager
Invent Germany
Olof-Palme-Straße 14
81829 München

+49 151 4025 0762

ralph.hemeier@capgemini.com

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