



Combating COVID-19 with resilience: Lessons learned from China's OEM experiences

Executive summary from a webinar by Deloitte on 16 April 2020

Overview

The auto industry is facing immense pressure to tackle the disruptions caused by the COVID-19 pandemic. The Chinese auto industry has managed to respond to the chaos in record time by shutting down production, supporting society, and bringing their business operations back to normal.

What lessons can be learnt from China's OEM experiences? Two senior executives from the major Chinese auto players shared what they have learned from all stages of COVID-19, from response through to recovery.

Speakers

- **Joe Vitale**, Automotive Sector Leader, Deloitte Global
- **Frank Li**, Vice President of Geely Holding Group, Geely Auto
- **Yang Min**, Data and Information System Director, SAIC Group
- **Pence Peng**, Partner Auto Dealership, Deloitte China
- **Andy Zhou**, Automotive Sector Leader, Deloitte China (*Moderator*)

Welcome and opening address

Joe Vitale, Automotive Sector Leader, Deloitte Global

The global automotive industry has weathered several storms while driving significant growth in the last 100 years due to its extraordinary resilience. However, the novel coronavirus has inflicted every single aspect of the industry's value chain. This crisis has placed intense pressure on the stakeholders across the globe to ramp up their efforts to plan recovery from the unprecedented impact of COVID-19 on the sector. Chinese automakers are one of the first to respond to the pandemic and bring the business operations back to normal. Various lessons can be learned and applied from Chinese OEM experiences in mobilizing the sector to tackle these disruptions.

Lessons learned from China auto makers' response to COVID-19

Frank Li, Vice President of Geely Holding Group, Geely Auto

After there was an evident decline in COVID cases, Geely effectively began to ramp up its operations in China while prioritizing the health and wellbeing of its employees. The action plan included four key steps:

- **Focused on reviving operations** at factories that manufacture the best-selling models. This decision was based on company's analysis of the market, customer demand, and the status of the supply chain.
- Chartered buses and trains to **help employees commute from remote locations** and ship supplies to its factories and **build inventories**. Within a few weeks, the company was able to bring 98% of its workforce in China back to work and its factories are now operating at 100% capacity.
- Developed platform to **support e-booking and contactless delivery** of cars.

- Launched a compact SUV model (Icon)—which comes with an N95 certified air purification system—in March. This was a result of Geely’s decade-long **investments in technology development**.

Yang Min, Data and Information System Director, SAIC Group

The SAIC group took the following initiatives to reopen offices and factories after the lockdown:

- **Live updates on pandemic prevention information.** Designed an application to manage employee information across the country.
- **Shuttle reservation for convenient commuting.** Discouraged the use of public transport by employees and arranged shuttle bus services. The number of seats was optimized for each trip to allow safe distance among the travelers.
- **Order healthy meals online.** Implemented an online food delivery system in cafeterias and encouraged employees to eat while practicing social distancing.
- **Attendance declaration and safety commitment.** Monitored the overall health (and temperature at the gate while ensuring safe distance) of every employee and maintained a centralized data of employee’s health records.
- **Flow monitoring and aggregation warning.**
- **Simplified the process and enabled one-click publishing** of approval documents.
- **Remote review to reduce costs and increase efficiency.** Designed a mechanism to perform remote quality checks of spare parts via video chats with suppliers and vendors.

OEMs and dealer experiences

Pence Peng, Partner Auto Dealership, Deloitte China

Amidst the COVID-19 pandemic, China’s automotive network saw a huge cash flow and liquidity crunch. As a result, several poor-performing dealers faced the risk of shut down which eventually affected the OEM sales targets and overall business performance. The OEMs and dealers can work together and take the following initiatives to manage the liquidity and cash flow risks:

- Monitor cash flow.
- Forecast demand to make achievable targets.
- Reconstruct profit models for smaller cities.
- Collect dealers’ balance sheets and invite feedbacks and opinions on financial operations.
- Categorize high-risk and low-risk dealers and track their sales.

Key themes from the Q&A session

To estimate auto sales volume and balance the production capacity:

- Assess demand, sales volume, and production volume by close collaboration between the sales and production departments.
- Monitor and maintain the inventory based on demand projection.
- Assess suppliers and workforce availability.

China’s automotive market landscape in a post COVID-19 world. The market may witness an increase in demand for economical cars as people may not be comfortable using public transport given that social distancing will be the new normal. This can benefit the domestic automotive manufacturers in China as people will be looking for a “safe” means of transport.

Fleet sales amid the coronavirus pandemic have taken a significant hit as the “new normal” requires people to step out only when needed. Added factors like the shutdown of leisure spaces, social distancing norms, and international travel restrictions have also impacted sales.

Challenges for automotive dealers in a post COVID-19 scenario. Currently, there are 30k automotive dealers in China of which only one-third made a profit last year. The COVID-19 pandemic has further accelerated this market downturn. This can be a good opportunity for the top dealers to increase

their market share and strengthen their competitive position by improving operational efficiencies. All the dealers may face liquidity risk in the short-term with the added pressure of building their inventory. They will also need to find a way to digitalize their offerings to customers.

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