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P R E S S R E L E A S E

Oliver Wyman study on the electric-car market in China
The race for e-mobility will be decided in China

- **China is massively pushing electric vehicles**
- **Domestic companies need technology input**
- **International competitors must position themselves now**

Munich, May 18, 2011 – China is one of the world’s most-promising markets for electric cars. An enormous amount of government funding is driving research and development as well as production and sales. To derive long-term benefits from the immense market potential of e-mobility, international automakers and suppliers must position themselves in China through strategic partnerships. Fast action is required as competition for the most attractive partners has already begun. These are findings of the most recent Oliver Wyman study, “E-partnerships in China.”

The Chinese automotive market is one of the fastest-growing markets in the world – and the trend is pointing upward. China also wants to set the tone in the electric-car market in the future. Whereas about one million electric cars are expected to hit the streets in Germany by 2020, around 2.7 million are projected for China. To reach this number, the Chinese government is pumping money into this market segment like no other country and providing financial support to companies and customers. The new five-year plan has earmarked around €11 billion for research and development activities related to hybrid and electric cars. In addition, a large number of pilot programs are receiving funds to help gain initial practical experience with the e-car.

China is also investing large sums in the necessary infrastructure for electric vehicles. Production capacity was recently created for the annual production of 500,000 electric vehicles, an act that costs Beijing €1.1 billion. Incentives for the end-user are also being implemented. Government subsidies of up to €6,800 for the purchase of an electric car are sparking considerable interest in the vehicle. “China is really putting the pedal to the metal,” says Matthias Benterrieder, an automotive expert at Oliver Wyman. “But despite the momentum, one thing can’t be forgotten: Chinese OEMs and suppliers still have considerable ground to make up in terms of technology and the form of all local value-creating partnerships.”

Excellent conditions

Despite this, Chinese companies have other aces up their sleeves. Apart from strong government support and the huge market, a promising industry is emerging around the all-important battery technology. A very favorable cost structure, for instance for wages and raw materials, is positively impacting the development and production of e-cars. These costs are considerably less than in western countries. After all, the People’s Republic of China has access to the scarce, yet key, raw materials for electric motors. Moreover, the megacities in

China and customers' exceptional willingness to buy these cars create excellent conditions for the development of inner-city concepts involving the electric vehicle.

Minimizing financial risks

To evolve into the leading manufacturers of electric cars as quickly as possible, Chinese companies need the technology input and know-how of international OEMs and suppliers. In a reflection of this, the Chinese government is currently pushing the creation of partnerships with foreign companies. For international competitors cooperations, joint ventures and shareholdings are, in turn, the best way to gain access to the massive Chinese electric-car market and exploit the favorable conditions there. This way, the substantial investments required for research and development for electric cars and their components can be jointly shouldered. And both partners have the opportunity to work together to overcome technological hurdles by bundling know-how, particularly in the battery sector. "Overall, this makes for a classic win-win situation," says Sven Wandres, an automotive expert at Oliver Wyman. "These partnerships are extremely important for Chinese companies as well as for international OEMs and suppliers."

All partnerships involving research and development for e-mobility are currently very promising, especially in the area of batteries. Electric motors hold much potential as well. Here, international manufacturers and suppliers must secure access to key raw materials and exploit the opportunities Chinese companies offer in terms of cost-effective mass production. The first partnerships have already been formed. This early phase in the still young electric-car market is particularly important for determining which types of partnerships can be successfully forged. In addition, ample experience with the partners and an understanding of the dynamics of the entire environment can be acquired in the beginning stages. All in all, international companies will face a steep learning curve in the process, and they must be prepared to make mistakes.

Securing a good starting position

Fast action is required. After all, the competition for the most attractive companies in China is in full swing. Nonetheless, foreign automakers and suppliers should approach collaboration with a healthy dose of caution and forge targeted, well-considered partnerships in China. For international competitors, it is now time to closely analyze their portfolios, strengths and products, find a suitable partner, and form the right kind of alliance with this partner. At the same time, contributing just the right amount of the company's own expertise to the cooperation, joint venture or shareholding is advisable. Not every partnership will lead to success. And, in the event of failure, the loss of know-how and competitive advantages must be prevented. "Because of government regulation alone, partnerships in China are, in essence, a question of opportunity and risk," Bente Rieder explains. "But, the fact of the matter is that in the coming five to ten years China will create a highly dynamic value-creation system that will involve all aspects of the e-car and will be larger than any other in the world. Companies need to secure the best starting position now to become a part of this system."

Media contact

Julia Karas
Corporate Communications
Oliver Wyman
Marstallstrasse 11
80539 Munich

Tel.: +49 89 939 49 468

Fax: +49 89 939 49 515

julia.karas@oliverwyman.com

www.oliverwyman.com

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