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# Mitigating risks while planning to resume work in the automotive industry



Having been severely impacted by the outbreak of COVID-19, citizens of all sections of society have chosen to fight back. As an essential pillar of the domestic economy, the automobile industry is reacting with determination. All players, including traditional OEMs, new entrant automakers, dealerships, suppliers and financial services providers are rapidly evaluating the influence of the epidemic and taking action to overcome its challenges hand-in-hand with customers and employees.

As an extension of this topic, based on our experience in Risk Management over many years, as well as interviews with several executives in the automotive industry, we summarize in this article the latest insights and mitigating actions for automotive companies' reference.

## Industry observation:

- **Consumers' willingness to buy cars has diverged, and will decrease in the short-term.**

The willingness to purchase a car of some first-time potential consumers will be strengthened by controls on public transportation in some areas or a desire to avoid crowds due to public health considerations. However, consumers who already own a car are generally more inclined to wait and see when it comes to purchasing upgraded models. Due to the challenging conditions for small and mid-size enterprises amid the NCP outbreak, potential customers of this segment might reduce their willingness to buy and target price range due to concern about their incomes. In addition, the inconvenience caused by the epidemic has further reduced impulse consumption demand.

- **Weakening after-sales demand.**

Impacted by infection controls,

a year-on-year drop in average driving mileage will further decrease aftersales demand for maintenance and repair, leading to a visible shrinkage in aftersales throughput.

- **Dealers delay resumption of business.** Most dealers have postponed the resumption of business to comply with local government requirements, preserve the health and safety of staff or wait for showroom traffic to rebound.

- **Greater dealer inventory pressure in the near future.**

Affected by the early Chinese Spring Festival this year, showroom traffic, order banks as well as vehicle handovers were concentrated in the first half of January. Thus, some dealers have relatively low inventory levels. However, there are still some automotive brands with high inventory levels at their retail ends. Among these dealers, those with a higher proportion of inventory

financing will face greater pressure of a squeeze on their own funds to pay for loans or interest.

- **Wholesale planning more difficult, and consumption rebound could cause inventory imbalance.** Long-suppressed car buying demand is expected to drive a short-term sales boost once coronavirus outbreak control measures show preliminary results. However, given the complexity of the situation, it is difficult to precisely predict the timing and dynamics of this sales rebound. It is therefore necessary to prepare a variety of wholesale plans, taking into account shortages of vehicles and parts in stock due to insufficient raw material supply, delayed production resumption and reduced transportation capacity during and shortly after the outbreak, as well as intense competition due to high inventory levels being worked through.

## Risk response

Concern and support for people, finances and resources are at the center of current risk response actions:



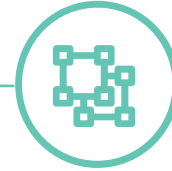
### People:

Focus on customer demand, create and upgrade customer touch points; focus on employee care, provide protection and guarantee health and career development.



### Finance:

Focus on cash flow risks, especially in retail channels that are directly affected by the market.



### Resources:

Reinforce upstream and downstream collaboration; improve supply chain flexibility

## These areas of focus can be broken down as follows:



### Focus on customer demand, create and upgrade customer touch points:

- **Guide epidemic prevention, ensure health and safety.** Enterprises should prepare and issue a "Dealership operation manual during epidemic prevention", with detailed instructions on: establishing an emergency team and material reserves for epidemic prevention, requirements for people and environmental sanitation, updates on sales and aftersales process standards, disinfection treatment standards, emergency treatment of suspected cases, etc.
- **Utilize digital tools, enhance off-site sales service experience.** Since customers are currently unable to visit showrooms to see specific models, we propose that OEMs and dealers utilize digital tools in their retail service. For example, live broadcasts, short videos and VR showrooms will be effective ways to generate traffic. Furthermore, WeChat groups can be used for demand analysis and product introduction.
- **Take the initiative to contact customers, upgrade aftersales services.** To avoid concern on the customer-side, dealers should take the initiative to contact vehicle owners in multiple ways. Customers should be informed of the resumption date of aftersales service as well as disinfection and other protections dealers have introduced for epidemic prevention. Meanwhile, service appointments by phone should be strongly promoted by dealers to arrange vehicle pick-up and delivery within their service radiuses, and value-added packages such as vehicle disinfection. Furthermore, roadside assistance services should be undertaken consistently. In insurance renewal business, we suggest dealers and insurance companies provide electronic renewal services, or provide insurance renewals with free door-to-door vehicle disinfection services. In addition, OEMs may consider a reasonable and appropriate extension of warranties for customers whose claims expire in the first quarter of 2020, and 24-hour remote support for dealers who encounter technical difficulties.



### Focus on employee care, provide protection and guarantee health and career development:

- **Enhance employees' security.** The outbreak of the 2019-nCov epidemic could have a serious impact on employees in the automotive industry, especially those who rely mainly on performance income. Therefore, enterprises should properly modify their KPI structures to ensure the income of employees. Moreover, enterprises should provide sanitary materials for employees to secure their working and living conditions. While physical protection is offered, professional psychological intervention could also be necessary for the wellbeing of employees.
- **Support talent development.** Increasingly, local authorities are announcing work resumption plans. In the short term, many enterprises will require or encourage employees to work at home and connect via telephone or the internet. Enterprises should arrange online training to enhance employees' capabilities. For frontline sales personnel, online training and assessment on product knowledge and customer reception can be considered.



### Focus on cash flow risks, especially in retail channels directly affected by the market:

- **Implement detailed capital planning with particular attention to cross-industry risks.** It is expected that, in the short term, the cash flow of dealer groups will revert to net outflows. Therefore, postponing or reducing unnecessary expenses is strongly recommended for enterprises. Meanwhile, for dealer groups operating in multiple industries, diversified operation will reduce financial transparency, and therefore greatly increase the complexity of cash flow forecasting. Therefore, it is essential to prevent automotive capital leakage due to cash flow usage by other industries within a diversified operation.
- **Conduct channel risk stress testing.** OEMs, financial institutions and dealer groups should jointly carry out diagnostic tests on channel risk, and predict their sustainable operating capacity in multiple scenarios accordingly, to provide supporting evidence for further collaboration and support measures.
- **Strengthen support for channels.** OEMs should actively cooperate with dealerships through supportive measures, including:
  - a) Paying close attention to policy changes and strengthening financing support, for example by negotiating with financial institutions to reduce the repayment risk for some dealerships in response to the recently issued "Notice on Further Enhancing Financial Support for Controlling the Novel; Coronavirus Pneumonia Outbreak (PBOC (2020) No.29)";
  - b) Appropriately adjusting KPIs during the epidemic and speeding up incentive payments through prepayment to help dealerships decompress;
  - c) Consider extending the exemption period for newly authorized dealerships under construction.



**Reinforce upstream and downstream collaboration, improve supply chain flexibility:**

- **Enhance upstream and downstream collaboration.** OEMs should work closely with upstream suppliers and downstream dealers. By enhancing information transparency, mutual trust can be cultivated, and supply chain flexibility can be strengthened. This will ensure the right models and parts are shipped to the right dealer at the right time.
- **Flexibly adjust supply-demand pace.** OEMs and dealerships should establish an approach to adjusting the pace of supply and demand. The general idea is to increase the power of dealerships in vehicle order and delivery, while loosening target requirements and providing an online marketing platform, so as to help OEMs and dealerships generate more effective and efficient responses to the market.
- **Communication between joint venture brands and global headquarters.** Dynamic and efficient communication between a joint venture and its overseas headquarters is encouraged to facilitate timely feedback on the Chinese market situation and more reasonable market expectation.







## Conclusion

Our interviews with selected automakers deliver a clear message that some of OEMs are trying to react to the outbreak. However the actions taken are not unified across the industry:

In the short term, the issue of inconsistency, non-transparency and imbalance remains throughout the industrial chain and across different regions. In the medium and long term, enterprises should continuously focus on:

- a) Enhancing the timeliness and accuracy of information for decision-making;
- b) Desktop exercises covering multiple scenarios in a scientific manner;
- c) Enhancing risk assessment and mitigation capability at the organizational and institutional level;
- d) Optimizing business sustainability plans to avoid just treating the symptoms rather than getting to the root of the problem.

In the long run, China's automotive industry faces a profound transformation towards customer centricity. Although the epidemic has had a short-term negative impact and increased market uncertainty, it is pushing the whole industry to think proactively about how to improve the customer experience and speed up transformation, as well as enhancing solidarity within the industry.

We are glad to see a growing number of automotive industry players combining their efforts and taking action. We believe China's automotive industry will finally work through the situation and become more mature and confident.



**For more information, please contact:**

**Pence Peng**

**Risk Advisory Partner**

**Deloitte China**

Tel: +86 10 8512 5347

Email: [pepeng@deloitte.com.cn](mailto:pepeng@deloitte.com.cn)



# Advices to automotive dealerships: How to mitigate short-term cash flow risk after resuming business



At the start of 2020, many businesses were interrupted by the fight against the outbreak of COVID-19 pandemic. Automotive dealers, due to the delayed resumption of business and stagnating sales, faced **low customer traffic, low cash flow** and **low material reserves** as a result of pandemic prevention measures. **High labor costs, rents** and **inventory**, as well as **unstable** logistics, added yet more pressure onto their operations. This situation was common to all businesses. Most dealers are operating with "less in, more out", which highlights their cash flow risks. At the same time, these risks could be transmitted to upstream and downstream businesses as well as horizontally through the supply chain and loan guarantee chain, creating a snowball effect.

Automotive manufacturers represent the center of the overall industry chain. They are an inter-dependent community of interests, and central to how the industry responds to the cash flow risk it now faces. Automakers and dealers therefore need to work together to address channel liquidity risk.

## Uniting to fight the pandemic Automakers' effective responses in the short term:

Automakers should act to increase capital and reduce the burden on dealers. The most common measures, which are also the most effective in easing cash flow pressure, are reducing sales targets, giving incentives in advance or accelerating incentive distribution, and providing discounts or coordinating with financial institutions to extend repayment terms as special support for dealers or to develop solutions together.

However, automakers need to consider several issues when formulating such measures. For example:

- How to accurately predict network cash flow?
- How to distribute subsidies at a reasonable pace while monitoring their effectiveness?
- How to avoid wasting already limited support resources?

To answer these questions and resume work in a more efficient, orderly, reasonable and scientific manner, automotive manufacturers should:

- **ESTABLISH dedicated task force to fight the pandemic:** Set up a special work groups to unite various business departments, setting out clear powers and responsibilities

and ensuring the adequacy and transparency of information communication, as well as consistent policy, between every business department.

- **CHECK and evaluate the funds of dealers throughout the network:** In recent years, although many manufacturers have established mechanisms to share financial information with dealers, these put more emphasis on income statements than they do on balance sheets or cash flow. It is now necessary to understand dealers' actual funding, inventory, credit, and payment positions, as well as the financial pressures they face, as soon as possible.

- **CALCULATE using pressure tests and multi-scenario simulations, deducing the impact of various measures on channel cash flow:** Quickly improve **dealership cash flow pressure test** models, relying on valid data and industry benchmarks, to forecast how risks will develop in the channel network. Starting from measures various business departments can take, including approaches to markets, sales, used cars, fleet sales, after-sales services, financing, corporate finance and network management,

quantitatively deduce the possible effects of various measures on channel cash flow using **multi-scenario simulations** to support rapid, scientific decision-making.

- **ACT to dynamically mitigate channel network liquidity risks:** Identify material risks and allocate resources to where they are most needed, implementing this strictly to ensure its effectiveness. After putting support in place, closely monitor its effects to obtain feedback and make adjustments.

- **PREVENT regional or group-wide risk incidents by establishing emergency plans for channel network risks:** Despite effective measures having been taken, some regions or groups could still be exposed to unexpected risks. In addition, dealer groups with cross-industry operations could face cash flow risks that are transmitted from outside of their networks. It is therefore imperative that automakers develop proper emergency plans.

**Dealers should mitigate pressure on cash flow** in three areas: operations, investment, and financing, and two directions: inflows and outflows. Specifically:



**Cash outflows from operating activities: Take proactive actions to cut or extend payment terms:**

- **Obtain policy support for reductions and exemptions from operating costs:** All levels of government have been introducing financial support to help enterprises. They have out of necessity granted tax reductions, deferrals and rebates, fee reductions, phased reductions and exemptions in corporate social insurance contributions, and housing provident fund deferrals, as well as guided property owners to reduce rent. For example, according to decisions adopted at the Executive Meeting of the State Council on 18 February, from February to June 2020 small, medium-sized and micro enterprises are exempt from endowment insurance, unemployment insurance and worker injury insurance contributions. Fully understanding and using these policy measures, especially targeted local policies, will play an important role in mitigating liquidity risks.
- **Try to pay some fixed fees by non-cash methods:** Collate fixed expenses, control the pace of repayment, and seek to pay some fixed fees with products or services, e.g. inventory vehicles in lieu of rent owed or after-sales commitments to replace cash expenses, thereby reducing negative cash flow.
- **Strengthen communication to delay accounts payable:** Sort out and handle payables to suppliers according to their amounts and payment terms, particularly large, long-term outgoings; communicate with individual suppliers to extend payment periods, reduce or exempt payments.



**Cash inflows from operating activities: Carry out flexible cooperation for fast, extensive cash collection:**

- **Accelerate collection of accounts receivable:** Carefully calculate incentive amounts provided by automotive manufacturers and communicate details of capital inflows. At the same time, collate receivables and assess their collectability according to amounts and collection periods, and coordinate with different business departments to communicate collection requirements.



- **Check assets to accelerate sale or activation:** Check the status of inventory and spare parts, assess the capital occupation of actual stock vehicles and spare parts, and accelerate sale or activation of assets. For example, reasonably utilize financing policy and payment period adjustments; prioritize full payment for vehicles sold to accelerate cash inflow; lease unrestricted company vehicles to business partners in other industries (such as insurance companies) with overlapping customer bases to activate assets.



#### **Reduce cash outflows from investment:**

- Temporally suspend unnecessary cash expenditure on investment, for example by suspending exhibition hall repairs and upgrades, after-sales workshop expansions and other projects.



#### **Make full use of policies to reduce financing costs and generate cash inflow from financing activities:**

- Financial regulators' policies to reduce enterprises' financing costs, and local implementation rules in particular, must be fully understood if their benefits are to be enjoyed. For example, financial institutions have started implementing the Circular on Further Promoting Financial Support for the Prevention and Control of the COVID-19 Epidemic, which was released by five regulatory authorities including the People's Bank of China. Banks have reduced loan interest rates, increased credit, medium and long-term loans, and sought to avoid the blind withdrawal, cancelation, and withholding of loans. This can reduce pressure from the epidemic on businesses capital chains, especially small and medium-sized enterprises.
- At the same time, dealers can seek to generate positive cash flow from financing activities, for example by pledging good quality accounts receivable to banks or other financial institutions to obtain loans; entering asset sale-leaseback agreements with leasing companies on machinery, equipment and premises, and using mortgages to address short-term difficulties.



#### **Beware excessive reduction:**

- While dealers address cash flow risk by seeking to reduce costs and prevent losses, they should also consider potential risks from overly radical cost reductions. For example, rather than suffering heightened turnover of front-line staff as sharp declines in sales volume erode performance-related pay, dealers can instead adjust performance structures to encourage employees to enhance their use of digital tools to attract customers, or make other changes and breakthroughs.



China's automotive industry is undergoing a profound, consumer-centric transformation. Therefore, in addition to the above quick responses, manufacturers and dealers can take advantage of this opportunity to accelerate their transformations and turn the crisis into an opportunity.

First, automakers can use their own brand resources to empower dealers to undergo digital transformations and accelerate their shift to omni-channel marketing by integrating online and offline platforms, enabling search diversion or developing experience-based customer services.

Second, automakers and dealers can seize this opportunity to continue promoting sound network management, consider the profitability and sustainability of networks from a long-term perspective, and ensure effective cash flow management.



#### **Strengthen channel risk management:**

- Establish a professional and effective, full-time dealership risk management team to assess and respond to channel risks, promptly identify and monitor those risks using an early warning system.
- Develop transparent communication and reporting mechanisms to report and share dealership risk assessment results and guide other activities such as sales, wholesale finance, account period adjustments and network developments.
- According to different risk causes and conditions, consider the strategic position of outlets and adopt measures to maintain channel integrity and health to the greatest extent possible, as well as protect brand reputation.



#### **Strengthen dealers' sustainability by improving channel performance systems:**

- Improve channel performance evaluation and objectively evaluate network profitability, risk-resistance and sustainability through benchmarking.
- Where there are weaknesses in dealership performance, identify common problems, individual challenges and solutions through extensive diagnosis and cluster calculations.
- Support and assist dealers as they build sustained development capacity and ensure the long-term stability of their networks through innovation policy, business support, performance guidance and other approaches.



## Conclusion

Amid the ongoing pandemic, upstream and downstream businesses in the industry chain need to cooperate to address a severe short-term liquidity crisis. To fight the pandemic and overcome difficulties together, automakers and dealers need smooth, speedy communication and cooperation based on transparency and mutual trust.

While focusing on risks, the industry must have the confidence to overcome its current difficulties and the determination to promote transformation. The pandemic is like a blizzard in winter – the rhythm of automotive market development, rather than its overall direction, has been disrupted. In the short term, temporary measures to reduce cash outflows and increase inflows are of course important, but in the long run, it is more vital that manufacturers and dealers work together to improve their ability to monitor pressure on cash flow and enhance their resistance. Such preparedness in winter will maintain stability and promote capabilities that will help the industry embrace the coming spring.

Thank you!



For more information, please contact:

**Pence Peng**

**Risk Advisory Partner**

**Deloitte China**

Tel: +86 10 8512 5347

Email: [pepeng@deloitte.com.cn](mailto:pepeng@deloitte.com.cn)



# Face the challenge and plan for the future, advices to auto industry on human capital planning during the epidemic



The impact of the COVID-19 epidemic continues to interrupt many industries. The automotive industry, one of the pillars of China's economy, faces shocks at all levels of its industrial chain. OEMs have suffered huge fixed-cost losses because of work stoppages, spare parts companies' default risk has increased due to force majeure, and dealers have had trouble collecting payments and accessing credit. Over the short term, businesses will struggle to survive due to the epidemic. Over the longer term, they will have difficulty managing cash flow, supply chains, risks and strategy.

In this article, Deloitte's automotive industry team shares observations and comments based on its service experience and insights, helping businesses in the automotive industry smoothly and quickly resume production, overcome difficulties, seize opportunities and plan for the future.

## Three major HR challenges after resuming work:

### **The automotive industry is labor-intensive, so work stoppages and temporary changes in employment will challenge personnel management**

Although robots have replaced some assembly line workers, the automotive industry remains highly dependent on manual labor. The "epicenter" of the epidemic, Hubei, and several affected areas including Guangdong, produce high volumes of vehicles. Given the industry's large number of OEM and spare parts workers, factors such as work stoppages, recruitment difficulties and employee sentiment will hinder the recovery of production.

At the same time, telecommuting during the epidemic has transformed how people work. Automotive companies will face substantial HR challenges, particularly how to adjust relationships given the blurred boundary between employees and companies after work resumes.

### **Intensified competition and higher short term labor costs will require enterprises to prioritize management optimization by reducing costs and increasing efficiency**

The Chinese automotive industry, which has already undergone transformation and upgrading, will see "the strong get stronger, while the weak get out" due to

the epidemic. Market volatility will promote transformation and reform through cost reductions and efficiency improvements, with businesses systematically enhancing their organizational management. HR managers can ensure the smooth application of advanced digital tools and business model transformations by building agile organizations and efficient teams.

Businesses will increase sanitary and epidemic prevention measures, pushing up labor costs. They can avoid layoffs by adopting short-term measures such as salary and role adjustments, reducing labor costs while ensuring stability.

### **Zero-touch services during the epidemic not only require that employees adapt to telecommuting, but also learn how to serve customers remotely**

The impact of the epidemic on offline sales has accelerated the transformation to a new retail model that integrates online and offline platforms. This new model, which brings the online purchase experience to consumers, will become an

important factor in companies' survival and development. Over the short term, companies use of telecommuting for the first time has meant their level of service has been lower than usual. Automotive businesses therefore need to accelerate their development of digital tools and reshape management as digital organizations, promoting digitalization, helping employees adapt to online service models, and digitally transforming their processes.

### **Planning and response recommendations for HR management:**

In the aftermath of the epidemic, businesses need to restore order quickly, meet market demand and adjust their organizational capabilities. We suggest the following three-stage course of action.

## **Resumption: Reduce costs, increase efficiency and smoothly resume work and production.**



### **Establish a task force and conduct continuous monitoring:**

Interim crisis management committees or epidemic prevention and control taskforces established during the epidemic should continue to monitor the situation, make decisions, communicate with the public and allocate resources. They should also help to establish sound emergency collaboration systems with good crisis awareness and highly efficient cooperation to improve crisis perception and response.



### **Control costs and optimize structure:**

With a temporary decline in profits, HR managers should adjust organizational structures, personnel structures and headcount to control labor costs and avoid unnecessary losses arising from ill-considered streamlining. Although streamlining can cut labor costs in the short term, employee turnover costs as well as re-recruitment difficulties and expenses could cause huge losses. Before any streamlining, a businesses should analyze labor costs and value to improve how employees are matched with their roles, optimizing their personnel structure and avoiding the loss of key talent.



### **Adjust systems and promote normal employment:**

To address sudden personnel demands or shortages, HR managers should analyze fluctuations in personnel demand and supply, adjust flexible employment systems, establish which roles have flexible employment requirements, and redesign corresponding systems based on their enterprise's business development needs.



### **Promote transparent communication and create a positive atmosphere:**

Businesses should give employees a sense of direction through open and transparent communication, helping them build confidence in coping with negative emotions arising from the crisis. First, they should communicate key information to employees including operating conditions, follow-up measures and career development prospects. Second, they should establish an atmosphere of collective, proactive business recovery as well as guide employees' thoughts based on a unified response strategy. This can prevent employees from experiencing negative emotions and encourage them to work with colleagues and customers to get through tough times. Finally, they should establish an internal communication mechanism, increase employee participation in major decisions, and help them build confidence in their ability to overcome difficulties.



## Development: Strengthen core competencies for steady improvements



### Analyze the impact of the epidemic and adjust organizational systems:

HR managers should comprehensively analyze the impact of the epidemic on their organization's systems, and make corresponding adjustments to ensure steady business improvements. Businesses should adjust work processes and performance management in response to the impact of the epidemic on operations and profitability, including by lowering performance targets and changing performance indicators for telecommuters. At the same time, they should update compensation and benefit systems based on changes in their cost and personnel structures to cope with pressure on personnel costs, while considering establishing long-term incentive mechanisms to address future risks. As work resumes, businesses should dynamically adjust their organizational systems, promptly inform employees of any policy adjustments, and plan for possible labor disputes.



### Retain core talent and provide continuous impetus:

It is vital to retain core talent, as this is the primary driver of a company's development and transformation. When the epidemic is over, businesses should optimize their talent structures based on their development goals, and identify key talent and positions as well as the optimal number of competent personnel that will ensure their operations run smoothly. Over the medium and long term, they should begin developing talent as soon as the environment improves, reserving strategic talent in advance, while continuing to pay attention to enterprise subsidies and other government policies to understand and implement employee welfare programs.



### Control talent mobility and avoid personnel crises:

Obtaining statistics on and monitoring employee mobility can help businesses avoid personnel management crises. Analyzing employee mobility trends based on onboarding and departure information can help identify the impact of the crisis on talent and predict future shocks.



### Adhere to people-centric principles and care for employees:

Businesses should adhere to people-centric principles, and make employee safety and health a top priority. Management should create a friendly, supportive workplace atmosphere to build trust between their company and employees, as well as provide guidance rather than repress employees' negative emotions to establish emotional boundaries. HR managers should provide employees with prompt, sufficient care in health monitoring, compensation, benefits and medical expenses during quarantine and treatment. Later measures such as health training and better medical security systems can establish a health risk defense system.

## Long-term: Promote business upgrading and transformation



### **Improve organizational readiness and deal calmly with uncertainties:**

In an ever-evolving environment, risks can be everywhere. To build a strong organization able to deal calmly with uncertainty, businesses need a professional risk management committee to formulate a comprehensive risk response plan, all while improving their organizational adaptability to change. Through analyzing organizational elements including structure, management mechanisms, labor concentration and talent distribution, businesses can assess how adaptably and efficiently they respond to change, as well as formulate basic principles for crisis response to quickly predict the impact and take timely measures to cope with future crises. The committee can also conduct regular simulations to improve an organization's readiness to respond to rapid change and build more agile teams.



### **Open up organizational boundaries and leverage partners' strengths:**

In an uncertain environment, businesses that open up organizational boundaries and cooperate with other enterprises in their ecosystems have an advantage. The epidemic is an opportunity for them to consider adopting an open source model, establish partnerships and improve risk resistance. As the lasting impact of the epidemic becomes clear, businesses should consider working with upstream and downstream partners and even competitors to develop countermeasures and share resources. At the same time, the crisis also suggests they should contact multiple resources to improve their professional capabilities. For example, professional services agencies and other social resources owned by large enterprises, such as law firms and consulting companies, can provide strong support during a crisis.



### **Promote digitalization and respond to risks:**

The epidemic has become an opportunity for the development of digital organizations. It has proved that digitization is an increasing requirement for automotive businesses due to growing demand for online marketing and new sales models. At the same time, strong digital capabilities can also greatly improve organizational management to increase businesses' risk resistance. For instance, the collection, analysis and application of big data make personnel management more efficient. The development of digital office systems can empower telecommuting and improve work efficiency. The digital reconstruction of management mechanisms can align organizational capabilities with existing digital technology capabilities.



### **Develop corporate culture and fulfill social responsibilities:**

To adapt to uncertainty, businesses should develop corporate cultures centered on a sense of mission and responsibility that motivate employees and improve organizational vitality. Corporate cultures should also give employees internal motivation, mobilize them to focus on customers to develop opportunities, and help quickly resume operations after a crisis.

Many automotive companies have fulfilled their social responsibilities during the epidemic, improving their corporate images, making employees proud and laying the foundations for good corporate cultures. For example, automotive companies have made generous donations, manufactured negative-pressure ambulances, and transported medical materials. After work resumes, many businesses will continue to make contributions based on the impact of the epidemic.



## Conclusion

The epidemic has challenged every business and every industry. It has tested enterprises' crisis management ability and adaptability. During the epidemic, a batch of market-sensitive, well-managed, and culturally-cohesive businesses promptly launched self-help plans and began to think about transformation. We hope businesses get through their difficulties, review changes in customer demand caused by the epidemic, as well as ponder whether their current models can meet new market demand and how to upgrade management. They should grasp opportunities presented by the crisis to become stronger and prepare for future growth!



For more information, please contact:

### **Ramona Yan**

**Human Resources Managing Partner**

**Deloitte China**

Tel: +86 21 2316 6088

Email: ramonayan@deloitte.com.cn

### **Tracy Ying**

**Human Capital Associate Director**

**Deloitte China**

Tel: 86 21 2312 7077

Email: tying@deloitte.com.cn





# Accelerating change in adversity, advices to auto industry on marketing and sales during the epidemic



The novel coronavirus disease, COVID-19, that broke out at the beginning of 2020 is a "black swan" that has hit the Chinese economy. Its effects, both dominant and invisible, have set off a chain reaction, leading to a variety of interconnected consequences. The automotive sector is a pillar industry with a deep, complex industrial chain, high degree of global participation, many employees, and substantial dependence on offline scenarios. It has experienced multiple impacts from the epidemic, which has interrupted the weak signs of recovery that emerged at the end of 2019.

How should we objectively judge the extent and depth of these impacts? What should OEMs and dealers do in response to the challenges of this public health emergency? After the epidemic, what new opportunities will emerge? To answer those questions, Deloitte has published a series of special articles on Business Resumption in the Automotive Industry, sharing feasible responses and recommendations from an overarching perspective, and is working with China's automotive industry and practitioners to overcome their difficulties.

## Observations on the impact of COVID-19

### Short-term shocks amplified; production and sales plans disrupted

The most direct and immediate impact of the epidemic was a drastic decline in public movement and social gatherings. Compared with previous outbreaks, the government issued more stringent short-term policies and guidelines on movement, business resumption and social activities. Short-term supply and demand in the passenger car market was bound to be strongly affected.

### Medium- and long-term market outlook remains optimistic with accelerating industrial upgrading

In the medium and long term, Deloitte remains bullish on overall demand

in China's automotive market. There is substantial untapped demand for replacing old cars or buying new ones, driven by aging vehicles, changes in family structure, and increased willingness to upgrade consumption. Demand for new cars among existing customers has become a main growth driver in the market. At the same time, such non-rigid demand is relatively less affected by the external economic environment. This is one reason luxury car sales have grown faster than the industry average over the past two years.

That said, the epidemic is likely to lead to far-reaching changes in China's auto market. Offline sales have been hit hard by strict quarantine and control policies. Consumer demand

for automotive purchases, use and maintenance, and consumer behavior, will shift from offline to online, accelerating the transformation of downstream retail.

## Recommendations on passenger car sales and marketing in the aftermath of the COVID-19 epidemic

**We suggest OEMs adjust production, sales plans and marketing models based on their specific conditions and further empower dealer channels. In the medium and long term, OEMs should gradually move from conventional offline retail thinking and accelerate their transformation to new digital retail.**





## Quickly adjust production, sales plans and marketing models

- **Adjust production, sales plans and marketing models**

February is not the usual peak sales period for passenger cars, but can lay solid foundations for sales growth in the second quarter of a year and beyond. As a result of the epidemic, although OEMs could in the short term make up for the impact of delayed production using unsold inventory from the end of 2019, the launch and sale of new cars was hit hard. For this reason, OEMs first needed to adjust their vehicle launch and marketing plans for 2020, and considering possible delays in vehicle delivery, then coordinate to ensure an efficient upstream supply chain while resuming production as soon as possible, making advance preparation for an increase in sales starting in the second quarter.

- **New online strategies and integrated online-offline marketing**

The COVID-19 epidemic had a huge impact on offline retail. The traditional passenger car market is highly dependent on offline sales. Its offline outlets, mainly 4S shops, typically cover the entire purchase process, from vehicle selection to test driving and delivery. Because of quarantines, this traditional offline sales model was disrupted. OEMs needed to change their mindsets towards making full use of online media to launch new retail mechanisms, connecting these with offline resources while physical stores were implementing epidemic prevention measures.

Such online activities included live broadcasts for vehicle introductions and evaluations, online flagship store platforms and self-developed APPs to sell vehicles online, and 24-hour online customer services to communicate through on-screen comments during live streams. By building livestreaming platforms for online interactions and sharing information, OEMs could understand consumer demand in real time and realize online, "one-to-many" product introductions and sales. These online platforms could also introduce community networks using customers' unified IDs as the touch point and adding links to bind with social media accounts, enabling customer preferences to be recorded and providing more accurate, better-targeted push notifications on products and services.

As services that support online marketing initiatives, offline test drives, delivery, inspection, maintenance and replacement remain indispensable to the automotive sales process. However, traditional offline transactions were hindered by the epidemic. Against this backdrop, OEMs could consider introducing one-stop-shop mobile experiences to provide consumers with integrated services. Relying on dealerships, OEMs can provide customers with door-to-door test drives and parts replacement services. By transferring transaction scenarios from traditional 4S shops to customers' homes, they can not

only ensure the safety of consumers, but also make their lives more convenient. During the outbreak, many dealers quickly launched a variety of mobile solutions, leading to a lack of standardized, unified solutions and an uneven customer experience. In contrast, the more uniform mobile solutions established by OEMs ensure a consistent, high standard of implementation at each dealer outlet, as well as a better customer experience.

- **Respond to challenges from new energy vehicle manufacturers, and seize opportunities to accelerate market planning**

The automotive market in China has been contracting since the start of 2018, but new energy vehicles initially bucked this trend. Many new energy vehicle brands were born and some rapidly gained market renown while traditional OEMs accelerated the deployment of new energy vehicles, relying on their capital, supply chain and technology advantages. However, as subsidy policies were phased out, new energy vehicle sales in 2019 declined from the previous year's level to 1.206 million units. According to statistics from the China Association of Automobile Manufacturers, sales of new energy vehicles in January 2020 reached 44,000 units, a sharp 54.4 percent drop year-on-year. Over the rest of 2020, the new energy vehicle sector will face heavy pressure as the epidemic makes the market increasingly competitive, heralding its entrance into an era of survival of the fittest.

Compared with traditional fuel vehicle makers, new energy vehicle producers not only pay more attention to consumer experience in their design, but also make bold advances in New Retail models. During the epidemic, new-entrant automakers with digital marketing genes have been using their in-built advantages to speedily implement new business models such as online vehicle promotion, purchase and diagnosis.

During the epidemic, new energy vehicle makers have shown their advantages through increased customer satisfaction and brand loyalty as a result of their swift responses to market change, integration of online and offline channels, and optimization of the purchase experience. The capital strength of traditional OEMs means they can better withstand cash flow pressures, which will enable them to

accelerate plans for the new energy vehicle market after the epidemic. Furthermore, traditional automakers and startups alike have shown social responsibility during the epidemic by donating materials, providing mobility services and customer care. This is likely to boost their brand growth and medium-to-long-term sales after the epidemic.



### OEMs should empower dealers to work together in difficult times and plan for long-term development.

• **Reduce channel sales targets and launch preferential policies.** In the past two years, the overall passenger car market in China has been sluggish, with dealer profitability declining. According to data released by the China Automobile Dealers Association in 2019, the net profit margin of the top 100 passenger car dealers in China in the first half of 2019 was less than 4 percent, below what it was in the same period of 2018. Fast-forward to 2020, and the sudden outbreak of COVID-19 is set to lead to large losses for dealers, worsening their already precarious situation. OEMs should take the initiative to lower or remove first quarter sales targets, and relieve the burden on dealers by reducing or exempting them from sales assessments, as well as boosting subsidies.

• **Lead and empower dealers in digital transformation to ensure the effective implementation of new marketing models.** The transformation of dealers is key to the overall upgrading of passenger car sales, because dealers are intermediaries that make direct contact with consumers. They need unified online sales guidance and standardized brand exposure. The independent online marketing practices of different dealers have an uneven effect, which is not conducive to OEM brand building.

OEMs should therefore build unified online marketing platforms and windows for dealerships, as well as launch centralized digital marketing tools such as online VR showrooms and live broadcasts. Perhaps more importantly, OEMs should provide

dealerships with standardized online marketing guidance, unified sales scripts and consistent brand exposure. Such consistent process guidance and training can ensure the effective implementation of digital marketing models.

For offline sales, OEMs can also provide standardized digital tools including visual test drives and holographic projections in dealer outlets. OEMs are suppliers not only of vehicles and spare parts, but also of processes, technology and other resources. They should collaborate with dealers to provide integrated online and offline services such as online showroom visit promotions, offline test drives and vehicle ordering, and door-to-door delivery.



**In the long run, development will shift from product-centric to service-centric, with transformation of sales models, channel upgrading and sales processes redesign becoming the core issues for automotive businesses**

After a two-year "winter" of falling sales in the passenger car market, a growing number of automotive companies are bringing the internet thinking of e-commerce into the auto retail sector. To understand consumer demand and optimize the consumer experience, the market has also started transforming to New Retail that centers on experiences and relies on big data. The point of automotive New Retail is to focus on consumers and take them on an integrated, seamless purchase journey.

The traditional offline sales model is quietly changing. An increasing number of OEMs have launched innovative offline outlets such as experience centers and direct sales stores, taking experience as the core selling point and adopting high-tech digital tools to complete their digital transformations, providing consumers with more intelligent, personalized purchases. At the same time, OEMs have integrated online and offline channels. By establishing online platforms and introducing digital tools to help consumers complete vehicle selection, price comparison and reservation independently, they are guiding consumers to find out about cars online and test drive them offline to save transaction and time costs.

Under this New Retail model, the passenger car market will not rely solely on dealers to drive sales. More OEMs will open their own and agent-

based direct sales outlets. These flagship stores will not only sell cars, but also provide product experiences. Meanwhile, OEMs will separate sales and after-sales functions. Specifically, for various sales and after-sales functions, such as vehicle displays, customer experiences, lead collection, test drives, contracts and payment, and maintenance services, separate new formats including city showrooms, experience, delivery and maintenance centers will be established. Various locations and channels will be used to improve the overall customer experience and optimize OEMs' costs. For different offline sales formats, new digital tools such as VR showrooms, holographic projections, visual test drives and customer data management will be introduced to integrate offline scenarios with online services to seamlessly connect sales processes through unified IDs.

OEMs can also establish online cooperation with e-commerce platforms or build their own online platforms, including on traditional e-commerce platforms like Tmall and JD.com, as well as vertical online ones like Autohome. In cooperation with e-commerce platforms, OEMs will engage in and manage efforts to achieve a smooth connection between online and offline channels. Identical online and offline prices for the same product will be used to prevent the market from being disrupted by price wars.

Customized vehicle models for e-commerce platforms can also be developed to differentiate products from other channels. The penetration of e-commerce platforms will deepen. In some 4th- and 5th-tier cities offline dealers have yet to enter, OEMs need to coordinate online platforms, offline dealers, and second-tier dealers to ensure service delivery and address consumers' concerns. Through the analysis of big data, e-commerce platforms can help OEMs obtain information about consumers' needs and preferences. In the meantime, OEMs need to build their own customer data platforms for more accurate marketing and long-term customer service.

Businesses can utilize data from online platforms for search diversion, and offline outlets' experience services, to create a virtuous circle and complete chain of online-offline, omni-channel marketing. Through diversified planning of online and offline resources, with consumer data as the point of connection, they can predict user behavior through big data to provide consumers with the products and services they desire, meet consumer demand more precisely, and accelerate the construction of a two-way ecosystem that promotes interactive communication between consumers and brands.



## Conclusion

The COVID-19 epidemic is a huge test for OEMs and dealers. It will spark fiercer competition in the industry and bring forward a "survival of the fittest" reshuffle. That said, the epidemic also brings development opportunities. Passenger car businesses will accelerate their transformation away from traditional sales and marketing models in adversity, giving birth to new customer journeys that meet vehicle purchase, use and maintenance needs, as well as corresponding digital sales models and processes. Deloitte looks forward to seeing passenger car businesses and dealers ride out the epidemic while accelerating innovation and growth in 2020, and to working with them to overcome current difficulties.



For more information, please contact:

### Andy Zhou

**Deloitte Consulting Automotive Industry Partner**  
**Deloitte China**

Tel: +86 21 6141 1028

Email: andyzhou@deloitte.com.cn

### Jeff Mou

**Deloitte Consulting Automotive Industry Partner**  
**Deloitte China**

Tel: +86 21 2316 6256

Email: jemou@deloitte.com.cn

### Billy Liang

**Deloitte Consulting Automotive Industry Partner**  
**Deloitte China**

Tel: +86 10 8524 8236

Email: billiang@deloitte.com.cn







# Enhance toughness out of the trough, advices to auto industry on supply chain management



After two years of downturn and deep adjustment, China's automotive industry had been expected to stabilize and recover in 2020. However, the sudden outbreak of the COVID-19 pandemic, a classic black swan event, disrupted this uptrend. The resulting supply disruption has gained widespread attention and will significantly impact the global automotive industry.

Given the industry's huge complexity, which involves multiple upstream and downstream enterprises, as well as the deep participation of Chinese companies in it, the overall impact of the pandemic on global automotive supply chains is only likely to appear in the coming months or later this year.

## **Impact of the pandemic on automotive industry supply chain: the pace of spare parts production and vehicle sales was disrupted, and the butterfly effect of the epidemic will gradually appear and spread across the global supply chain**

### **Sales stagnant for a short time and market demand disrupted**

The epidemic in China will have had a huge impact on auto market sales in the first quarter. Although the release of delayed demand is likely to bring something of a sales bounce once the epidemic is under control, we expect the market to decline continuously this year given the current level of customers and state of market development.

In addition, the epidemic will impact overall demand. OEMs will face

multiple challenges to their production and marketing plans, as well as inventory management, due to the short-term sales suspension, release of pent-up demand, and changes in vehicle ordering, pickup and sales.

### **OEMs face difficulties in work resumption, and it will take time for production capacity to recover**

Local governments in China have clearly stipulated the dates and application procedures for resuming work after the epidemic. Although many provinces and cities allowed enterprises to resume work on 10 February, most OEMs postponed their work resumptions to 15 February or later as personnel returned to work slowly due to restrictions on people's movement, and quarantine requirements. Higher health and safety requirements also posed huge

challenges in arranging and managing production. It will take some time after the resumption of work for production capacity to recover. *This will have had a substantial impact on production capacity and production plan implementation in the first quarter.*

### **Disruption to spare parts suppliers poses several risks**

The automotive industry supply chain is long and complex. Any issue in spare parts supply at any link will affect the whole chain.

The first focus should be on the short-term risk of spare parts supply disruption. According to the latest research from the China Association of Automobile Manufacturers, most OEMs and spare parts enterprises started work seven to 10 days later than in previous years, and needed

more time for production capacity to recover after resuming work. Hubei Province, the epicenter of the epidemic, is one of China's largest automotive industry bases, with its nearly 12,000 spare parts enterprises accounting for 13 percent of the national total. Wuhan alone is home to half of the top 20 global spare parts suppliers. The suspension of production by key manufacturers threatens industry-wide supply disruption, and will affect downstream vehicle production.

The long-term impact of the epidemic on supply safety will be even more notable. The resulting *work stoppages and short-term downturns in finished vehicle production and sales are bound to damage* upstream second-, third- and fourth-tier *small- and medium-sized spare parts suppliers*. They will face *greater cash flow and finance risks, threatening the longer-term supply safety of downstream enterprises*.

Furthermore, sudden demand changes caused by supply disruption could lead to a butterfly effect. In response

to limited production capacity at some upstream suppliers, some downstream enterprises could raise order quantities, start backup supplies or increase inventory to ensure their normal operation, which will lead to excess stock. Distorted demand information could be transmitted and exaggerated along the supply chain, creating a bullwhip effect throughout the chain and increasing the risks of upstream overcapacity, supply and demand mismatches and downstream overstocking of spare parts.

#### **Logistics interruptions deepen risk of spare parts supply disruption**

Affected by the epidemic, the logistics industry faces a grave shortage of transport capacity as well as severe disruption caused by road closures, traffic controls and mobility restrictions in provinces and cities. This creates practical problems, such as long-distance transportation disruption and unwarranted delays in the transportation of complete vehicles and spare parts, which could further deepen the risk of spare parts supply disruption.

#### **The impact has spread to the global automotive industry supply chain, and could create supply substitution risk**

Over nearly 30 years of development, China has become deeply embedded into the global automotive industry. *The epidemic's extensive disruption to China's automotive supply chain could also pose risks to the global automotive industry chain*. Some global auto companies have shut factories in South Korea or Japan temporarily due to supply disruptions in China, and some global spare parts manufacturers have issued global supply chain risk warnings. This makes it necessary to *pay close attention to possible substitution and loosening risks from China's automotive industry supply disruption*. However, there is no need to be too pessimistic. If the COVID-19 can be controlled promptly, enterprises can gradually resume production and supply. With its long-term advantages in technology, quality, price and production capacity accumulated over the past decade, China's automotive industry chain could suffer relatively limited industrial substitution.

### **Suggested short-term response: OEMs to play role of "chain masters" to strengthen visibility and coordination of upstream and downstream enterprises, resolve supply chain uncertainties, and cooperate to overcome difficulties**

Over the short term, as "chain masters", OEMs need to zoom out to see the whole supply chain and industry from a macro perspective, improving the visibility and coordination of supply chains by strengthening support for upstream and downstream enterprises, as well as cooperating with the entire industry chain to overcome difficulties through proactive planning and monitoring of supply risks.



#### **Coordinate upstream and downstream enterprises to ensure clear information throughout supply chains**

OEMs should cooperate with spare parts suppliers and dealers to open up information channels in the value chain and improve the transparency of supply and demand data. Timely and clear information on demand changes, production restrictions, and spare parts supply restrictions can help upstream and downstream enterprises accurately adjust production, reducing the risk of supply and demand mismatches and short-term fluctuations being amplified by information asymmetry.



#### **Give dealers a bigger say and understand market needs**

OEMs should adjust their dealer strategies, objectives and business policies, as well as give dealer a bigger voice and more influence in vehicle ordering and pickup to better understand front-end market demand through orders placed by dealers and make targeted adjustments based on real demand. This can also help dealers overcome difficulties, promote deep cooperation with OEMs, and enable more and better coordination of production and marketing plan adjustments.



#### **Conduct multi-scenario supply and demand simulations, and adjust production and marketing plans**

OEMs should reexamine front-end market demand and inventory, production capacity and upstream spare parts supply plans and restrictions, analyze market demand fluctuations, upstream spare parts supply plans, and production capacity recovery plans. The resulting information can be used to simulate multiple production and marketing scenarios, as well as develop plans to prioritize required and producible models for their most important markets.



#### **Flexibly adjust production arrangements, and achieve a controlled work resumption as soon as possible**

Control is key to the resumption of OEMs' operations. Given the challenge of resuming all areas of operation, OEMs should strengthen epidemic prevention and health and safety management, and gradually resume production by adjusting production plans and capacity, their pace of production, and production line arrangements based on safety management requirements and the return of workers. They should focus on how to further enlarge the space available for production to provide flexible support for changes in output and marketing plans.



### **Quickly review and identify supply disruption risks, and launch supply chain backup and contingency plans**

OEMs should work with their core first-tier spare parts suppliers to comprehensively investigate and evaluate upstream suppliers' short-term supply capability, identify risks and launch supply chain backup and contingency plans. In particular, OEMs need to rapidly confirm and finalize supply plans for key spare parts that come from the same production lines. They should also monitor quality to ensure the safety and quality of short-term spare parts supplies.



### **Monitor long-term supply risks and support upstream suppliers**

OEMs should assess the financial health of upstream suppliers, monitor long-term supply risks, and support important links of the supply chain when necessary. This can include assisting with the application of force majeure to deal with default risks, shortening payment periods, or providing financial support to ensure they can overcome difficulties together. Meanwhile, the suspension of production by some upstream suppliers of key spare parts could have a delayed impact on OEMs. They should screen key spare parts, trace upstream suppliers and check production plans, identify high-risk suppliers, as well as formulate and begin plans to replace suppliers where appropriate.



### **Cooperate with logistics partners to ensure uninterrupted supply**

Although automotive logistics has been relatively less affected by the epidemic than production, procurement and supply, OEMs still need to assess the stability and safety of their logistics networks, and formulate responses to short-term capacity limitations and delays. At the same time, OEMs need to work closely with 3PL to focus on allocating transport capacity and logistics resources, while identifying major risks in spare parts supply logistics and improving 3PL's coverage of spare parts supply. For imported spare parts, OEMs should heed risks in international transportation and customs clearance efficiency, making timely adjustments to transportation routes and customs clearance processes to ensure production is not affected by logistics interruptions.

### Long-term response strategy: Establish a tenacious, flexible supply chain through capability orientation, technological empowerment and cooperation

Based on short-term adjustments and recovery, automotive enterprises should make long-term preparations: establish capability-oriented, strategic supply networks, promote smart manufacturing to improve flexibility, and build a resource network ecosystem for mutually beneficial cooperation. On one hand, a flexible supply chain helps improve agility; on the other, a firmer supply chain boosts enterprises' risk resistance capabilities. Future supply chains need to have both qualities.



#### First, establish a capability-oriented, strategic supply network

There is already competition across the automotive industry chain. The core value of a supply chain lies in its completion of product delivery and optimization of cost efficiency, and supply chain flexibility, agility and tenacity are key to future industry competition. Therefore, automotive enterprises need to develop strategy-oriented network layouts to enable dynamic, flexible configurations in response to changes in external markets, customer needs and the industry ecosystem, achieving the optimal allocation of supply capabilities and industrial chain resources. By improving supply quality, providing superior customer services and enhancing supply continuity at the lowest possible cost, enterprises can build secure yet flexible supply capabilities.

In network layout, enterprises need to break through the traditional model of produce delivery as the core, manufacturing as the axis, and function oriented. Instead, they should go beyond the traditional boundaries and change elements of network layout from physical node to capacity oriented. Specifically speaking, the future network layout is not the physical node layout of the supply chain in the tradition sense, but re-decompose and combine the entire automotive supply chain from a capability perspective. The physical node is only the carrier of a series of capabilities, and the node layout is the physical manifestation of the capability layout, but capability changes are different from node changes. Under this strategy, the configuration of network capabilities is the core of the network layout planning. Enterprises need to sort out all resource capabilities required for end-to-end delivery, realize the modular combination and allocation of capabilities, and pay attention to the definition and establishment of pivotal capabilities, so as to reconfigure network capabilities.



#### Second, establish backup capability and strengthen risk management

The nature of risk is difficult to predict. Traditional risk management is event-driven and involves summarizing all potential risks in exhaustive detail to formulate countermeasures for the most likely eventualities. This requires heavy investment and makes it difficult for enterprises to effectively respond to low-probability, black swan events such as the COVID-19 outbreak. Therefore, in a capability-oriented supply network layout, establishing a backup supply chain is an effective way for enterprises to improve their risk resistance.

The core concept is putting one or more auxiliary supply chain networks in place underneath an existing master supply network, which can help enterprises smoothly weather a crisis. In one example, an enterprise-level internet equipment supplier established assembly nodes in different regions that in combination matched its core assembly capacity. In the event of a major crisis such as an earthquake, tsunami or other force majeure event that is difficult to



predict based on traditional probability analysis, each node has considerable assembly capacity and can immediately start cross-regional emergency supply to avoid supply disruption. Another example is a Japanese automotive enterprise that standardized and redeployed spare parts supply after the 2011 earthquake, giving multiple supply nodes equivalent spare parts production capacity to enhance its overall supply chain risk resistance.

At the same time, OEMs and core first-tier suppliers should use digital tools to manage upstream supplier risks, ensuring their timely control and analysis, and improving the responsiveness and professionalism of risk management.



### **Third, promote smart manufacturing and improve supply chain flexibility**

Businesses should actively promote Industry 4.0 to achieve smart manufacturing and enhance the flexibility of their production and supply, especially in R&D and spare parts standardization. To better deal with hidden supply risks, they can at the same time optimize overall processes to achieve flexible production and supply chains. For example, a US luxury car brand with a workshop in China can support flexible production of seven types of cars using Industry 4.0, enabling quick switches in production. Moreover, the brand's factories in other countries including Argentina, Poland, Thailand, and Brazil, have also transformed towards unified templates, designs, production process and technology. If any serious problems occur in one region, factories in other regions can provide quick support.



### **Fourth, increase upstream and downstream supply chain coordination, promote mutually beneficial, long-term development, and establish an ecosystem of automotive industry resources**

At the operating level, OEMs, upstream and downstream enterprises need to cooperate more in R&D, planning, and supply chain operation, especially on how to establish upstream and downstream information sharing using digital tools to enhance visibility and multi-party collaboration.

Strategically, OEMs need to re-consider how they cooperate and strategize with upstream and downstream businesses, rebuilding mutually beneficial cooperative relationships, and creating trust, with dealers and suppliers. Meanwhile, OEMs should proactively build ecosystems of automotive industry resources to strengthen coordination, and establish industry alliances. Compared with company-based supply chain management, this enables businesses to shoulder risks together in a crisis by sharing resources, including supplies and funding, which can make a huge contribution to the recovery of an individual enterprise's supply chain. After a fire in one of its supplier's factories in 1997, a Japanese automaker faced a 98 percent shortage of brake fluid valves and an estimated two-week production halt. The company promptly called on other suppliers. Although these suppliers had never produced the required spare parts before, more than 200 of them were able to manufacture enough brake fluid valves that met the automaker's requirements in just one week through close coordination and rapid R&D. The Japanese automaker was able to do this because it cooperated with a supplier alliance, creating a culture of mutual assistance—"when difficulties arise with one party, aid will come from multiple sources". It was able to weather this supply chain storm and maintain a highly flexible, rapid response capability even though in normal conditions it used an exclusive supplier.



## Conclusion

When a crisis occurs, it is important to also focus on the future, including changes in thinking on supply chain risk management and business continuity.

The COVID-19 outbreak at the start of 2020 has been a huge shock to the entire automotive industry. Regardless of how severe the situation becomes, Deloitte believes businesses will win this "war" against the epidemic, overcoming difficulties through proactive responses, deep cooperation and mutual assistance, with support from government and industry. On the road to recovery, businesses can further promote modernization, establish resistant, flexible supply chains, and strengthen cooperation and alliances, while continuously promoting integration with the automotive industry worldwide and contributing to its bright future in China.



For more information, please contact:

### Lucy Feng

**Deloitte Consulting Strategy&Operation Partner**  
**Deloitte China**

Tel: +86 10 8512 4885

Email: lifeng@deloitte.com.cn

### Liu Hao

**Deloitte Consulting Strategy&Operation Partner**  
**Deloitte China**

Tel: +86 21 2316 6294

Email: haoliu@deloitte.com.cn

### Andy Zhou

**Deloitte Consulting Automotive Industry Leading Partner**  
**Deloitte China**

Tel: +86 21 6141 1028

Email: andyzhou@deloitte.com.cn



# Guarding against digital marketing system risks in the automotive industry



With advances in epidemic control and people returning to work, production and other operations of automotive enterprises and dealers are gradually returning to normal. According to Deloitte' Risk Advisory's Ten Steps for Enterprises to Fight the Epidemic, now COVID-19 is moving in a more positive direction, automotive sector practitioners should review its impact, and use it as an opportunity to upgrade enterprise management mechanisms and modernize governance and business management.

The COVID-19 outbreak coincided with the winter in China's auto market, with consumer demand suppressed or postponed, affecting the normal sales activities of auto businesses and dealers, and complicating the recovery of the entire sector. One of the most obvious impacts of epidemic controls on the automotive industry was plummeting offline consumer activity and a surge in online interaction. Now, to address customer demand and elevate their marketing efforts, auto companies and dealers are rapidly ramping up their resources in digital marketing, introducing new online advertising methods and content, which should provide strong-but-limited support for new car sales despite the epidemic.

With a sudden acceleration in digital marketing, auto businesses face four hidden risks that could end up hindering their long-term growth, namely:

- **Strategic risk:** Most systems, functions, and channels that are put online quickly in a special period tend to lack big-picture thinking, which can sabotage online marketing at the macro level and make the long-term effectiveness of digital marketing uncertain.
- **Compliance risk:** The absence of unified standards and guidelines for digital marketing in the automotive sector create an environment of hasty publication and eye-catching content from unknown or unauthorized sources, exposing auto companies to internal and external compliance risks.
- **Operational risk:** Digital marketing activities that fail to connect with the overall marketing and sales plan of a company, or serve only as "a flash in the pan" amid the COVID-19 outbreak, cannot support lasting business growth after production resumes.

- **Financial risk:** A lack of comprehensive and effective input-output management for digital marketing among most businesses could easily result in inefficient investment and wasted resources.

When resuming business, automotive companies need to run a full scan of their digital risks to prepare for medium- and long-term competition. In this article, based on our analysis of digital marketing risks, we provide deep insights into how they can build closed-loop digital marketing systems in a post-epidemic ecosystem from the following perspectives: full-scale and multifaceted digital marketing channel planning; establishment and implementation of an efficient, unified, multi-channel management system; organic connection of digital marketing and offline sales; evaluation of channel efficiency and optimization of resource inputs.

### Building a comprehensive, multifaceted, closed-loop management-based digital marketing ecosystem

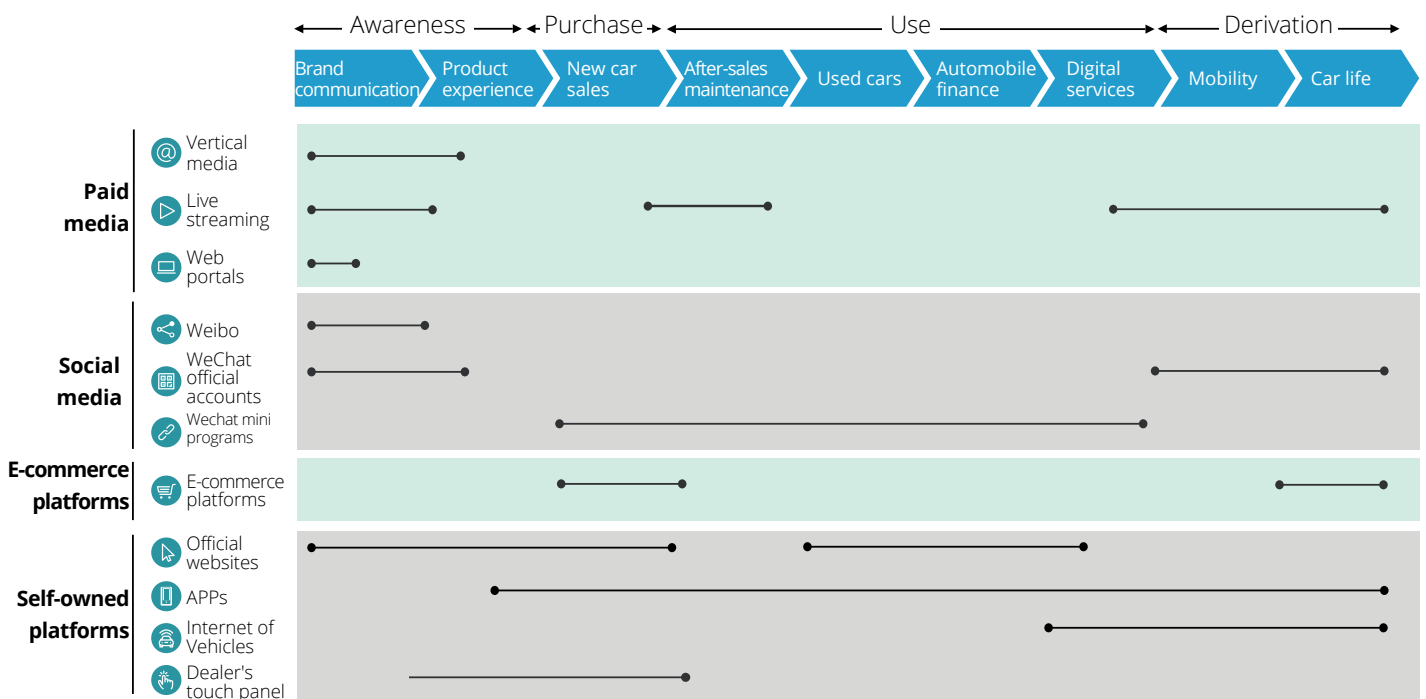
#### Integrate digital marketing channels to address specific needs at each stage of the customer journey based on comprehensive, multifaceted planning

Due to the coronavirus outbreak, most automotive companies have launched online marketing channels, including their own APPs, Weibo, WeChat, or vertical media, and begun to try new methods such as live streaming and short videos. However, their current online channels often have duplicated content and conflicting functions, and rarely address key customer needs such as one-click inquiries and online customer services. This is because any single online channel focuses on specific but limited areas, so can only satisfy requirements at one or a few stages of the customer journey. To keep pace with user demand, companies should have a thorough understanding and analysis of customer requirements as well as their business goals to build comprehensive, multifaceted online marketing channel systems. In doing so, they can find the most suitable channels for user needs with well-aligned, connected functions and content across channels, enhancing the customer experience while avoiding repeated input of resources.

For marketing to fans, potential customers and existing customers, Deloitte recommends focusing on the following digital marketing channels that meet the needs of specific stages of the customer journey:

- Fan marketing:** Focus on advertising via highly interactive digital channels such as live streaming and short video platforms, rapidly pairing this with marketing initiatives. This can include providing real-time online customer services to answer customer questions and responding to users' concerns during live streaming introductions, evaluations and KOL sales, as well as adding links in online showrooms to collect purchase intention and sales lead data.
- Potential customer marketing:** Focus on using automotive enterprises' and dealers' self-owned online platforms, social media and e-commerce accounts that already have strong follower numbers, and provide introductions by professional sales consultants, 360° online car experiences, VR intelligent exhibition halls and other functions that can direct potential customers to dealers' sales consultants and smoothly translate online sales into offline purchases.
- Existing customer marketing:** Rely on APPs, WeChat public accounts and mini programs for after-sales services including online maintenance and reservation, one-click rescue and remote electronic renewal, combined with 24-hour remote services such as intelligent online customer interaction to respond promptly to customers' use and maintenance problems, as well as connect with online sales channels to realize one-click ordering of service packages and spare parts.

#### Auto company and dealer online marketing platforms based on user needs





**Create an efficient, unified, multi-channel marketing ecosystem with various online channels, based on overall marketing strategy and high-precision customer portraits**

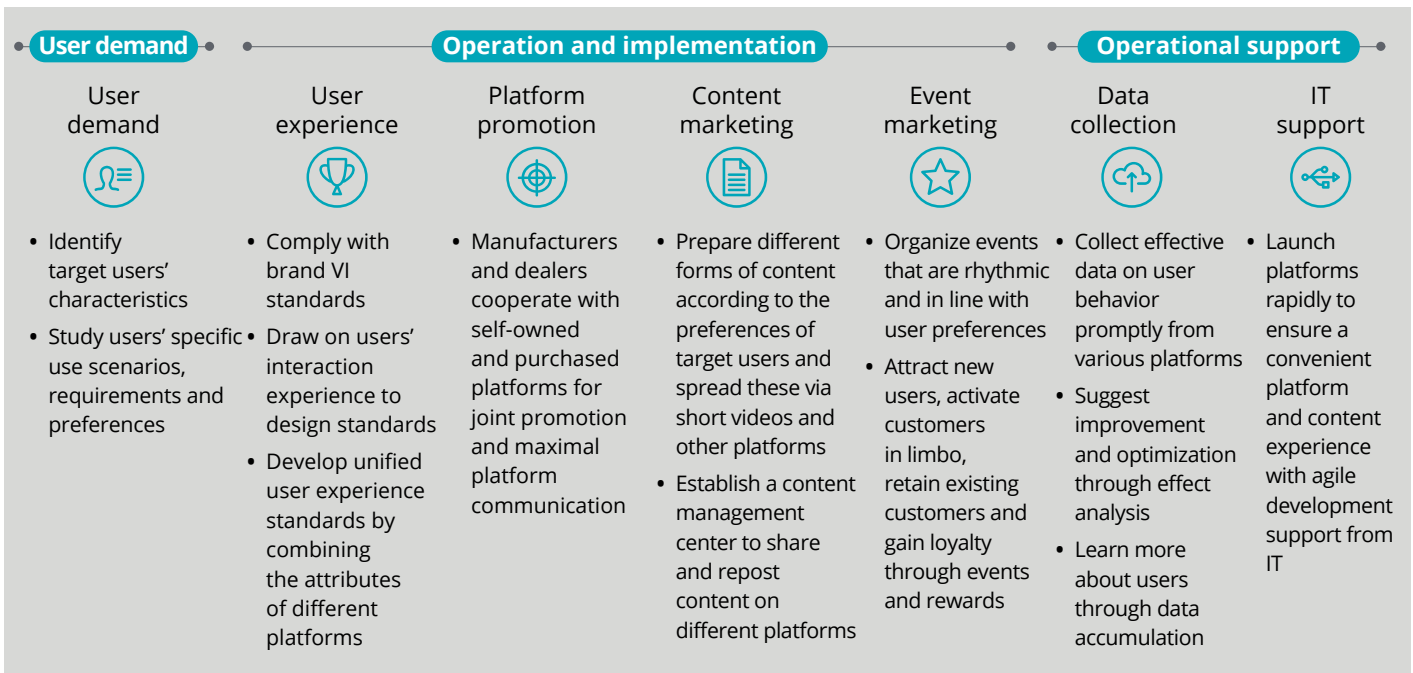
To increase exposure during the COVID-19 epidemic, auto companies have launched various marketing activities with diverse content and methods to draw consumers. However, their lack of standard digital marketing systems has created a range of problems, including badly targeted content, communications platform-audience mismatches and compliance risks with some content, which can damage their brand images and waste resources.

With all these different digital marketing channels, automotive enterprises need to develop unified operating standards and processes, as well as provide training and guidance to related departments and dealers:

- **Define user needs:** Identify user preferences for content, activities and other elements through surveys and data analysis to formulate unified guidance for online advertising.
- **Unify user perception and experience:** Develop a unified visual identity and interactive experience standards applicable to different online marketing channels.
- **Realize cross-platform collaboration:** Standardize cooperation using mutual referencing and search diversion.
- **Standardize content and activities:** Publish unified content and activity standards, including criteria for text, pictures, videos and events.
- **Improve data collection:** Develop unified monitoring standards for online data, including user profiles, field dimensions and statistical frequency.
- **Provide agile IT support:** Build standardized, agile process specifications and resources for IT problems and online marketing requirements.

In the short-term context of the epidemic, after the establishment of these standards and systems, automakers should provide guidance and services for their implementation to related departments and dealers. In the medium and long term, as operations return to normal and digital marketing systems keep improving, they should establish an assessment system to promote sound development.

**Digital marketing system operation and implementation**



## **Connect online digital marketing ecosystem and offline business implementation to build an integrated marketing system**

Sales conversion is a core objective. Automotive businesses and dealers should establish operational and conversion processes that improve "online sales funnels". These should connect and form a "one-two punch" with traditional offline sales and existing customers to promote sales conversion and marketing.

An "online sales funnel" includes generating traffic and retaining sales leads (media reach, clicks, redirects, information retention), remote experiences and online negotiations, store appointments and digital support, which all contribute to store visits and sales conversion. Unlike an "offline" or traditional sales funnel, an online sales funnel relies on online technology to complete most of the links in the process, from information on leads to follow ups by sales consultants and user experience feedback. However, this imposes new requirements on a company's technology and online service capacity. We recommend establishing an integrated sales system with online and offline marketing resources, comprising:



### **Online customer attraction and information retention**

Link organically to digital marketing system to attract customers from key online marketing channels (such as live streaming and short video platforms); set up selection criteria for online sales leads and retain qualifying information; include online leads in the sales lead management systems or provide to local dealers for follow-up.



### **Remote experience and online negotiation**

Provide digital displays of brands and products, such as virtual exhibition halls with the support of AR, VR and other technologies, and test drive videos for customers to watch online; use negotiation tools such as WeChat to establish good interaction with customers; implement traditional offline sales processes such as customer demand analysis, product and service queries, and sales negotiation on online platforms supported by remote technology.



### **Appointment and digital support before potential buyers enter a store**

Keep using the convenience of online services to schedule appointments for store visits to shorten users' waiting time; explore value-added services such as 24-hour door-to-door delivery of cars for test drives or purchase processing, as well as online financial and insurance provision; provide digital introductions to products and services, and introduce digital means such as intelligent voice service robots to respond promptly to user needs.



### **Strengthen digital support for existing customer marketing**

Due to the impact of the epidemic, stimulating marketing and new sales has become a key task this year for automotive enterprises, but there is little value in losing current customers while attracting new ones. In other words, auto businesses should further empower existing customer marketing with digital tools, providing online maintenance, repair, extension and renewal services to promote marketing "fission" and business value with existing customers.

### **Comprehensively evaluate the effectiveness of online channels to guide the effective input of marketing resources for the medium and long term, based on the effects of new media channels launched during the epidemic**

Given the impact of the epidemic, lower costs and greater efficiency will be another important goal this year. Companies need to evaluate the input-output efficiency of every channel, create an efficiency management dashboard, and continuously add more efficient channels to optimize the impact of online marketing in parallel with omni-channel, multifaceted, digital marketing planning.



#### **Build a digital marketing effect evaluation model**

In addition to traditional CPM, CPC and other elements, businesses should establish standards for evaluating channel efficiency centered on CPL (cost per lead) to realize internal, "1ID" management of individual customers, track the target audience of each channel using technology, compare this with prospects successfully converted to sales in future cycles, as well as use modelling analysis and other approaches to quantitatively evaluate the input-output efficiency of each channel.



#### **Form a digital marketing efficiency management dashboard**

Divide and refine quantitative evaluation results based on digital marketing channel, launch region, audience type, input-output efficiency, etc., and develop an efficiency management dashboard with BI and other technologies to support management decision-making.



#### **Adjust based on feedback for closed-loop enhancement**

Continuously optimize online channel portfolios to form a management system for closed-loop enhancement according to quantitative analysis of channels' input-output efficiency.



## Conclusion

As the prevention and control of the novel coronavirus shows more positive effects, and production and operation of automotive businesses and dealers gets back on track, traditional offline business will stabilize and progressively recover. COVID-19 is not a decisive event in automotive companies' digital marketing competition, but a "clarion call" in an ongoing contest. While working together to solve the coronavirus crisis, auto sector stakeholders should carefully consider the pain points that have emerged. This will allow them to build solid foundations for digital marketing systems, while organically blending in traditional offline marketing to form a "one-two punch". This is how they can attain first mover advantage in omni-channel marketing and sales competition over the medium and long term.

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For more information, please contact:

### Allan Xie

**Northern Region Deputy Managing Partner  
Risk Advisory Client and Market Leading Partner  
Deloitte China**

Tel: +86 139 1006 4656 / +86 8520 7248

Email: allxie@deloitte.com.cn

### Dennis Zhang

**Risk Advisory Partner  
Deloitte China**

Tel: +86 180 0112 7600 / +86 8520 7248

Email: denzhang@deloitte.com.cn

### Dai Jiangning

**Risk Advisory Director  
Deloitte China**

Tel: +86 138 1043 3645 / +86 8512 4607

Email: jiadai@deloitte.com.cn







# Accelerated transformation of automotive business CSR and brand strategies



Corporate social responsibility (CSR) is a concept used to describe the relationship between corporate growth and social development. Enterprises are responsible for and obliged to promote social welfare in the pursuit of maximum economic benefits, including their responsibilities to employees, customers, partners, shareholders, governments, communities and the environment. A growing number of Chinese enterprises have incorporated CSR into their development strategies and corporate governance, to fulfill responsibilities to the environment and society as social citizens while pursuing maximum profits.

In recent years, driven by factors including regulation and the capital market, businesses have begun to draw up and issue CSR reports. Some stock exchanges have also increased mandatory environmental, social and governance (ESG) disclosure requirements for listed companies. ESG performance, as an important indicator of the performance of listed companies in fulfilling CSR and sustainable development goals, is increasingly being integrated into listed company research and decision frameworks by investors and asset managers.

As a comprehensive industry, the auto sector is characterized by numerous production processes and a complex, diverse supply chain system. OEMs are at the core of the industry chain across production and demand, so bear more complex and arduous CSR. In addition to these sector characteristics, industrial policy is now promoting the evolution of the auto industry in a strategic direction focused on improving quality, valuing technology and stimulating innovation. All these factors will propel automotive enterprises to make positive adjustments in fulfilling CSR or ESG requirements, and the COVID-19 outbreak will accelerate this transformation.

## Automotive businesses CSR evolving due to the epidemic

During the epidemic, automotive companies and many other businesses have made substantial donations to relief efforts. According to incomplete statistics, from January 23 2020, more than 120 OEMs, parts suppliers, dealers, charging enterprises, logistics companies, and mobility companies in the auto industry contributed a combined RMB1.2 billion to fight the epidemic in less than two weeks. Automotive businesses have taken CSR

actions in addition to donations during the outbreak:

- **Shifting from "capital contribution" to "technology output" and "capability output".**

During the epidemic, China has faced a shortage of medical supplies and production capacity has been restricted. Many passenger vehicle enterprises quickly organized personnel, and purchased raw materials and production equipment, to produce masks and other

emergency supplies through self-built production lines or outsourcing, delivering these promptly to frontline epidemic prevention and control. OEMs quickly and rapidly transferred a series of production materials to produce medical supplies, showing the auto industry's resource integration capability, supply chain capacity and production experience as a comprehensive manufacturing sector. Switching to mask production showed the comprehensive advantages of

automotive enterprises in raw material procurement, storage and transportation, workshop management (masks need to be produced in dustless workshops), automated production, quality control, and several other respects.

- Ensuring efficient resource scheduling and integration.** As the epidemic expanded, businesses were called on to solve problems that arose. Automotive companies gave full play to their internal and cross-industrial strengths, cooperating with professional organizations and institutions on joint innovations through the reasonable division of work. For example, one major Chinese automaker worked with

scientific research institutions and air filter enterprises to develop an intelligent air purification system to prevent bacteria and viruses from entering vehicles, rapidly achieving mass production. Vehicles equipped with this purification system were sent to the frontline. In addition, many global automotive enterprises used their networks to purchase medical supplies needed urgently to combat the epidemic. Automotive businesses' huge channel advantages meant they could solve the problem of frontline supply shortages.

- Safeguarding the interests of stakeholders in a special period.** With the gradual stabilization of the epidemic outside Hubei Province,

automotive enterprises made use of automation, big data, cloud computing, shared service centers and other technological means to ensure their employees could work remotely, guaranteeing their safety while providing basic services for customers. At the same time, automotive companies paid more attention to the health of employees at suppliers, dealers and other partners across the value chain, proposing measures to relieve cash flow pressure on downstream enterprises, including by extending interest-free periods and removing quarterly assessment targets.



## The COVID-19 epidemic has prompted OEMs to change their CSR thinking

During the epidemic, as traditional relief channels like donations proved less efficient in delivery and could not accurately meet demand, automotive businesses took the initiative to adjust and rethink their positioning and capability advantages.

Deloitte believes the epidemic will accelerate the transformation of automotive company CSR strategies and practices to "Phase 2.0". In this phase, the fulfilment of CSR will become a way for enterprises to contribute to society, laying the foundations for sustainable brand development and repaying society as more effective organizers of social resources. The epidemic will prompt enterprises to emerge from their original strategic frameworks and innovate approaches to fulfilling CSR:

- **First, enterprises are more efficient organizers of social resources as social governance decentralizes**

In the face of a public health emergency, enterprises have exerted their intrinsic advantages in organizing, scheduling and coordinating resources to provide higher social utility in combating the COVID-19 epidemic. For example, transforming lines to produce masks showed the effective scheduling of OEMs' social production capabilities. Some OEMs also provided vehicles to transport medical care personnel and increased the supply of negative-pressure ambulances, showing their strong supply chains and production recovery capabilities.

- **Second, enterprises in the same industry chain share weal and woe**

Many parts enterprises and 4S stores have not been able to continue normal operations due to the epidemic, and working with upstream and downstream stakeholders has highlighted OEMs' operating advantages. OEMs took the initiative to check how upstream suppliers were affected, and helped them resume work to reduce performance difficulties. They also reduced pressure on downstream dealers by adjusting assessment targets, granting subsidies, interest payment discounts and reductions. Automotive businesses provided convenience and assistance to upstream and downstream enterprises during the epidemic, a concrete embodiment of fulfilling their CSR to enterprises in the same industry chain.

- **Third, business opportunities arise from problem solving**

The wide spread of the epidemic deepened concerns among vehicle owners about in-vehicle air quality, and stimulated new demand for healthy, intelligent in-vehicle environments. Automotive companies will be prompted by the epidemic to emphasize safety and health in future product development to fulfil their CSR to consumers, including by launching in-vehicle air purification and sterilization functions, using interior materials with stronger antibacterial capability, and installing sensors that can monitor body temperature and other physical signs of occupants in real time. After the epidemic, such health-related sub-functions are expected to stimulate new demand and become a point of growth for automotive businesses.

- **Fourth, awareness of automotive brands has surged**

Because of the epidemic, domestic-funded automotive companies have seen a surge in brand awareness. One domestic-funded automotive enterprise with outstanding performance during this period experienced two significant improvements in the Baidu Index of search queries in February, surpassing some foreign-funded brands. It used its supply chain advantages to produce masks and won high praise from across society. However, most foreign-funded automotive enterprises were unable to take such quick, practical actions due to a lack of decision-making rights and other factors. In CSR Phase 2.0, domestic-funded automotive enterprises need to consolidate this brand awareness, while foreign-funded automotive enterprises need to optimize their domestic influence through more local CSR and brand activities.

## Automotive businesses will make substantial adjustments to CSR strategies after the epidemic



### First, carry out CSR planning based on corporate strategies

Businesses often consider CSR as a "cost item" or a "forced action" to cope with public opinion and government relations. Moreover, CSR budget, strategy and execution planning is conducted by their marketing or brand departments, yet implementation is often entrusted to public relations companies.

In CSR Phase 2.0, automotive companies will adjust their CSR activities to align these with their corporate values and strategic objectives, by:

- Developing top-level strategy and CSR design based on long-term, sustainable development goals;
- Integrating CSR into raw material procurement, production and manufacturing, logistics and transportation, assembly, marketing and other operations;
- Sharing global supply chain issues with supply chain enterprises and proposing countermeasures against potential CSR risks;
- Establishing CSR activity performance systems and measurement standards, and evaluating and quantifying CSR's economic and social value;
- Incorporating CSR into organizational culture and business conduct.



### Second, consider social issues closely related to their main business and with strong appealed to stakeholders

Chinese enterprises' CSR can be divided into three categories. First, charitable activities in the course of business, such as disaster relief donations, funding for disadvantaged primary schools and projects for left-behind children, without pursuing direct or indirect economic returns. Second, taking responsibility for sustainable production and operations, and environmental protection, for themselves as well as upstream and downstream enterprises, by lowering energy consumption and emissions levels, reducing their impact on and protecting the environment, recycling resources and using clean energy. Third, enterprises will make use of existing technologies, products, talent and other resources to solve social issues through business innovation, such as by developing e-commerce, mobile payments, logistics and transportation in rural areas with Chinese internet companies, or increasing incomes and supporting employment in rural areas. In the past few years, automotive businesses have focused on the first and second of these CSR categories.

The 10 principles of the UN Global Compact, including the compliance of business activities and strategies with human rights, labor standards, environmental protection and anti-corruption measures, have guided enterprises to formulate and implement CSR strategies. Businesses should consider specific actions under such a framework.

Deloitte believes OEMs need to find the right entry point to match enterprises' long-term, sustainable development strategies, missions and objectives, and avoid one-off or duplicated investment. However, amid cost cutting and budget tightening, they should focus on selecting and implementing CSR projects, particularly whether these can create visible and quantifiable business and economic value. This requires a balance between long-term and short-term contradictions.

Automotive companies can formulate CSR strategies and select CSR projects based on the following principles:

- Extending and expanding their core business based on strategic needs;
- Screening for social issues of common concern among stakeholders;

- Prioritizing issues from multiple perspectives such as the impact of stakeholders on current business operations as well as the urgency and universality of demands, to maintain the interests of stakeholders while fulfilling CSR obligations.

The epidemic also raises a new consideration in CSR project selection: Businesses need to incorporate contingency plans and risk resistance measures for public safety incidents (including natural disasters, infectious diseases and accidents) into the scope of CSR, thereby guaranteeing the sustainability of their business plans.



### **Third, expand influence and build ecosystem partnerships around CSR**

CSR should not be limited to within enterprises. Instead, it should make use of platform effects to mobilize resources from customers, suppliers, communities and other areas, use the strengths of various stakeholders, and solve problems in an integrated, innovative way. A domestic-funded automotive enterprise was able to rapidly supply self-produced masks to the frontline of the epidemic largely because it gave full play to the advantages of its suppliers. One of its established insulation cotton suppliers had precisely the raw materials needed (polypropylene) and had mastered the production process for core filters (melt-blown non-woven fabrics) for masks, while the automotive enterprise provided personnel and technical support in production management, project management, equipment maintenance, quality control and packaging. With active and close cooperation between multiple parties, it took less than a week to launch mask production lines. Although converting production lines back to their original purpose after the epidemic will hurt the company's bottom line, this cooperation enhanced its reputation and created social value for parts factories and the OEM itself.



### **Fourth, further integrate CSR into sustainable development strategies**

Sustainable management planning allows enterprises to evaluate their long-term development strategies. Amid a global trend towards fulfilling CSR, OEMs must also formulate localized sustainable development strategies for the Chinese market. For example, to address global warming and demand for new energy vehicles and mobile car-hailing, automotive companies need to consider how to integrate environmental and urban sustainability, reposition dealers and other external partners, create new value for users, and provide new thinking for employees as internal partners. This will enable them to formulate sustainable development strategies and reflect their concerns.



### **Fifth, pay attention to CSR disclosures**

Automotive businesses can prepare CSR reports according to Global Reporting Initiative (GRI) sustainability standards, CASS-CSR or other guidelines. The issuance of CSR reports not only shows society a company's practices and achievements in CSR, but also enhances transparency to ease stakeholder concerns and win trust, promotes corporate values, establishes a responsible brand image and improves corporate reputation.

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For more information, please contact:

**Allan Xie**

**Northern Region Deputy Managing Partner  
Risk Advisory Client and Market Leader  
Deloitte China**

Tel: +86 139 1006 4656 / +86 8520 7248

Email: allxie@deloitte.com.cn

**Hannah Routh**

**Risk Advisory Partner  
Deloitte China**

Tel: +852 2109 5158

Email: hrouth@deloitte.com.hk

**Jolin Gu**

**Risk Advisory Partner  
Deloitte China**

Tel: +86 10 8512 5340

Email: ligu@deloitte.com.cn

**Michael Chen**

**Deloitte Consulting Strategy & Operation Partner  
Deloitte China**

Tel: +86 10 8512 4819

Email: michaelchen@deloitte.com.cn



# Preliminary study on "no contact" marketing risk in the automotive industry



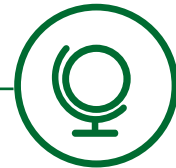
With advances in epidemic controls and the resumption of work, carmakers are drastically accelerating their digital marketing programs, and related risks are starting to appear. We researched "non-contact" car sales to produce this paper exploring and discussing the following issues based on our experience of automotive risk management and digital marketing:



- The impact of "non-contact" marketing in the automobile industry



- Risks arising from the increased adoption of streaming in "non-contact" marketing and how to respond in the short term



- Long-term risks in "non-contact" marketing, and how it should be deployed

## Overview: "non-contact" marketing's impact on and value in the automobile industry

An important part of automotive digital marketing systems, "non-contact" marketing in this article refers to marketing activities through 3rd-party social media platforms to remotely inform potential consumers and target customers about brands and products, and support product purchases, as well as provide value-added services such as after-sales and derived services.



- Digital marketing



- Social media marketing
- ("non-contact" marketing)



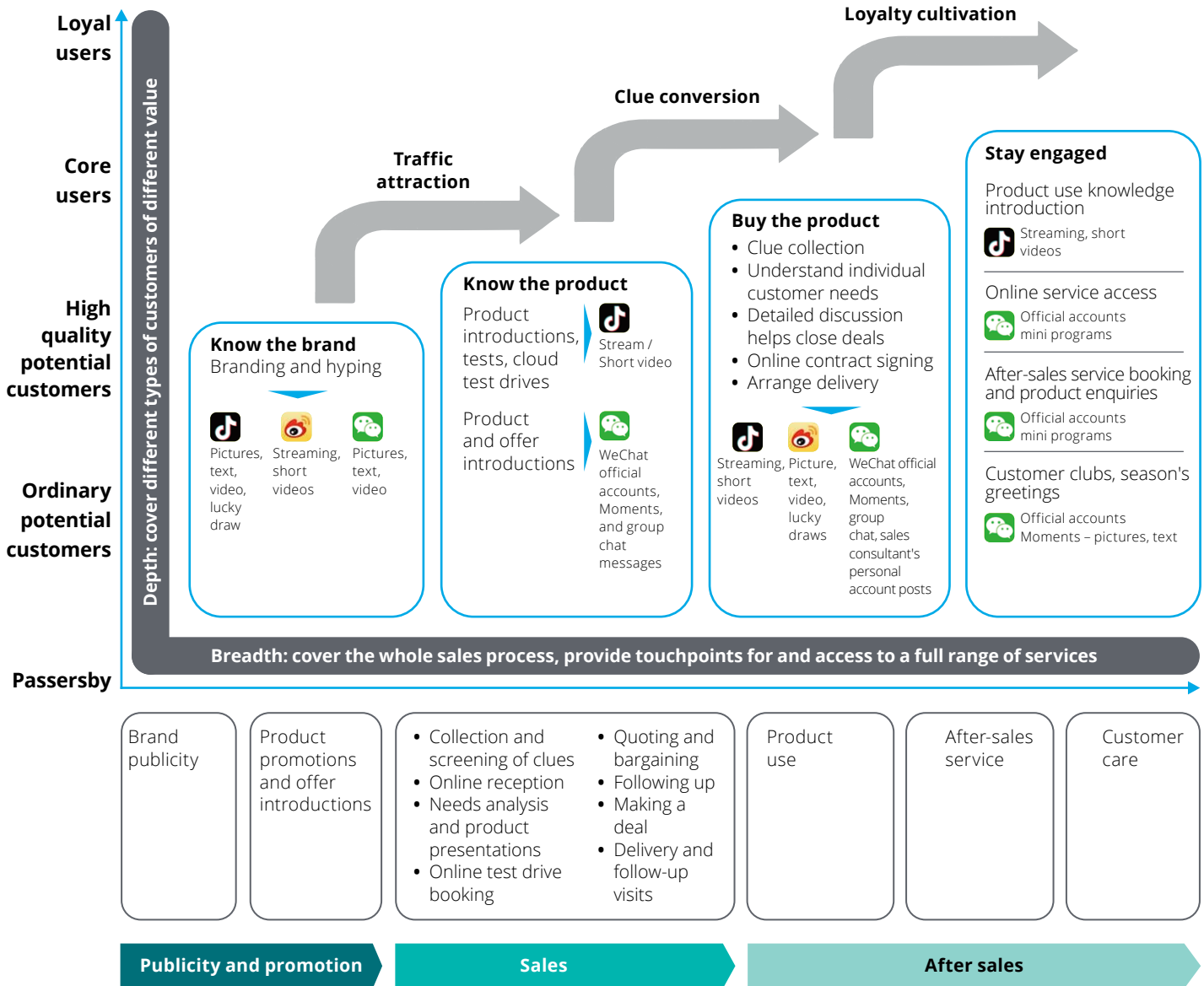
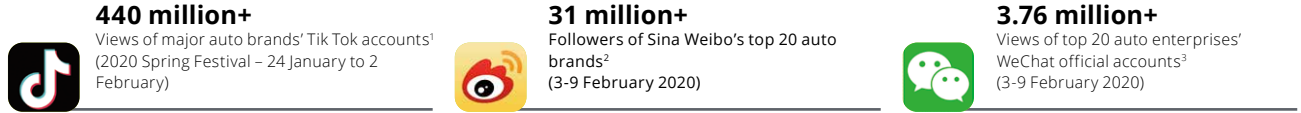
- Streaming
- Weibo
- WeChat
- ...

"Non-contact" marketing usually covers multiple digital social media platforms, including short videos, live streaming, Weibo's topic page and WeChat official accounts. This multi-platform, multi-method deployment runs through the entire sales process, covering different types of customers, as well as providing touchpoints for and access to a wide range of services. "Non-contact" marketing has already generated a huge impact among a large number of digital media platform users. According to incomplete statistics, Sina Weibo's top 20 auto enterprises have over 30 million followers. During the Spring Festival holiday alone, videos released through auto brands' TikTok accounts amassed over 440 million views, and one week after the holiday, the top 20 auto enterprises' WeChat official accounts had been read more than 3.76 million times.

On top of those huge numbers, efficient real-time user interaction through various platforms can bring the following benefits to carmakers:

- 
- **Brand promotion:** Increase brand exposure and traffic, gain more loyal fans and word-of-mouth marketing exposure
  - **Sales conversion:** Appropriate platform positioning and page layout will effectively collect and track touch points to promote sales conversions
  - **Market insight:** Understand customer trends, monitor changes in customer needs and requirements promptly, and sharpen acumen
- 
- **Customer development:** Maintain close relationships with existing customers, connect with potential customers through multiple channels, and establish a customer base by increasing private domain traffic
  - **Financial benefit:** No entrance fee for mobile media platforms, reducing marketing costs
-

Impact of carmakers' content on main platforms:



Source:

1) Huge numbers, "Chinese New Year of the Rat—TiK-Tok Car Statistics Review"; 2) For the rankings, please refer to the Sina Auto Brands List; Deloitte Research; 3) newrank.cn, WeChat Impact List of Chinese Auto Brands

Although the automobile industry had a slow start in livestream marketing, the streams it has managed to produce attracted widespread attention during the epidemic. By trying this new channel, carmakers and dealers seek to maintain and increase their customer bases when they see a sharp drop in offline consumer activity. The following section takes a closer look at streaming through a multi-dimensional analysis, draws inferences, explores the risks in "non-contact" marketing and suggests countermeasures.



## Greatness in triviality: A closer look at "non-contact" marketing through streaming



### The rise

- **Retailers starting to adopt new model of streaming + e-commerce:** Thanks to the compelling narratives of influencers, live streamed shopping became popular overnight. All kinds of brands turned to this new model, seeking to convert traffic into sales.
- **Internet celebrity sells cars for the first time:** On the night of the 2019 Tmall 99 Saving Festival, anchor Wei Ya sold cars during her live stream. With total viewers reaching 2.2 million, she managed to achieve a record of selling more than 40 vehicles in 15 minutes<sup>1</sup>. When the automotive market starts to shift from one with huge growth potential to one where growth is challenged, carmakers and dealers will explore exploring new touchpoints to expand traffic and increase sales. Streaming has brought new sales channels to automotive marketing.
- **The epidemic has boosted "non-contact" live streaming:** During the 2020 Spring Festival, in the midst of the epidemic, offline car sales almost stagnated, and carmakers and dealers were forced to act quickly to stay ahead. Streaming, a typical form of emerging "non-contact" marketing, started to gain recognition and be widely used in the automobile industry.



### Current situation

More than 20 car brands streamed a wide range of content during the Spring Festival on platforms like Tmall, JD, Tik Tok, Kuaishou, and Volcano Video, covering different traffic entrances. In terms of broadcast participation, dealers from 1st- and 2nd-tier cities, as well as provincial capitals, were quickly caught up by lower-tier cities. Automotive industry live streaming has reached a new level. We analyze three representative brands below, helping readers experience the popularity of streaming more closely.

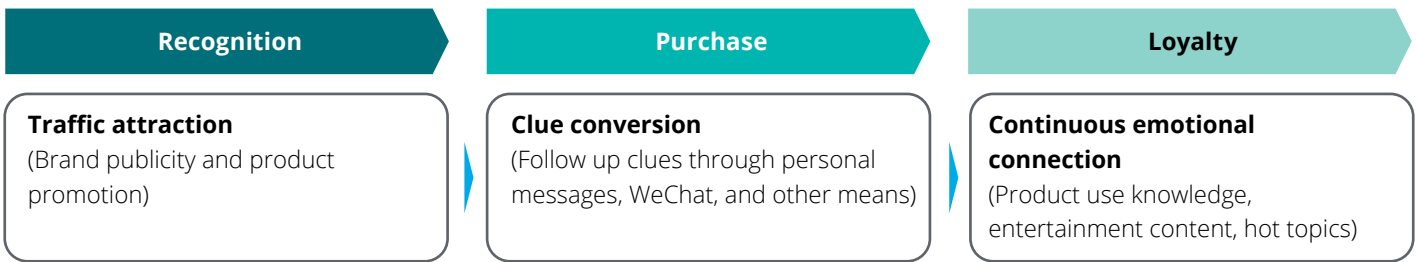
	A German luxury brand	A US NEV brand	An emerging carmaker	Overview
<b>Frequency</b>	10-16 February 27 live streams	From 28 Jan. More than 65 live streams	8 Feb. 26 live streams 13 Feb. 37 live streams	<b>Brand</b> More than <b>20</b> traditional carmakers rely on dealers for live streaming
<b>Host</b>	Brand's senior product professionals	<ul style="list-style-type: none"> <li>• Experience center staff</li> <li>• Invited car owners</li> </ul>	Exhibition staff	<b>Platform</b> Make full use of traffic entrances <b>(Tmall, JD, Tik Tok, Kuaishou, and Volcano Video)</b>
<b>Content</b>	<ul style="list-style-type: none"> <li>• Top picks analysis</li> <li>• Q&amp;A</li> <li>• Lucky draw</li> </ul>	<ul style="list-style-type: none"> <li>• Car performance</li> <li>• Test drive experience</li> <li>• Booking through official website</li> <li>• Charger warranty information</li> <li>• Features introduction</li> </ul>	<ul style="list-style-type: none"> <li>• Test drive experience</li> <li>• Product introduction</li> <li>• Entertainment live streams, date makeup tutorial, popular dessert making, etc.</li> </ul>	<b>Region</b> Participating 4S shops have expanded from <b>1st- and 2nd-tier cities and provincial capitals to small cities and counties</b>

1. Source: [https://www.sohu.com/a/342231263\\_100188939](https://www.sohu.com/a/342231263_100188939)



**The value**

Unlike WeChat and Weibo, which use text and pictures as the main content, live streams utilize a huge traffic pool and a tremendous amount of information, catering to the lifestyles and entertainment habits of most age groups. Having quickly gained popularity during the epidemic, livestreaming opened a new window for carmakers to engage with customers, and started to play an important role in the three stages of the customer lifecycle, recognition, purchase, and loyalty.



**Beware nine risks in three areas**

While enjoying the various short-term benefits of live streams, carmakers and dealers should be keenly aware of nine risks in three areas, namely effectiveness of communication, user experience, and compliance and brand reputation.

		Example
<b>Effectiveness of communication</b>	<b>Lack of focus</b>	<ul style="list-style-type: none"> <li>Multiple accounts of the same brand streaming simultaneously without a clear topics on specific car types risks losing the audience's interest</li> </ul>
	<b>Poorly planning process</b>	<ul style="list-style-type: none"> <li>Lack of emergency response and detailed plans for stream processes, topics and forms; deviation from original communication direction and goals for engagement</li> </ul> <p>During a live stream by a German luxury brand dealer, a customer raised a topic unrelated to cars and the host spoke about it for too long, failing to introduce cars as planned</p>
	<b>Inefficient communication</b>	<ul style="list-style-type: none"> <li>Due to a lack of information about potential customers, difficulties in reaching customer's areas of interest leads to in time-consuming, inefficient communication</li> <li>Unaligned product positioning and information between the brand's and dealer's live streams cause confusion</li> </ul> <p>One US luxury brand dealer usually streams 4 hours at a time, introducing the same cars repeatedly, which is time consuming and can not reach target customers efficiently</p>

<b>User experience</b>	<b>Short of hands</b>	<ul style="list-style-type: none"> <li>If a host is unable to respond directly to individual questions it can lead to complaints</li> </ul>	During a live stream by the German luxury brand dealer, the host was unable to answer questions about 6 models in 10 seconds, dissatisfying viewers
	<b>Poor equipment</b>	<ul style="list-style-type: none"> <li>Poor equipment creates a noisy environment and severe camera shake, leaving a bad impression</li> </ul>	When the host walked around to demonstrate functions, the camera shook and often faced the ground, making some of the audience feel "dizzy"
	<b>Poor network connection</b>	<ul style="list-style-type: none"> <li>A poor network connection in parking lot demos can cause video lag or disconnection, leading to complaints and withdrawals</li> </ul>	When the host demonstrated functions in a forecourt, the video froze to poor a network connection, causing a large drop in viewers
<b>Compliance and brand reputation</b>	<b>Unprofessional sales speech</b>	<ul style="list-style-type: none"> <li>If sales speech in violation of service principles is widely circulated on social media, it will damage the brand</li> <li>"One size fits all" suggestions to promote sales, risk customer complaints</li> </ul>	<p>During the live stream of a German brand dealer, the host said new cars cannot be returned or exchanged.</p> <p>A NEV car brand even suggested consumers buy cars with low-level configuration, and get the cars outfitted later as their wish</p>
	<b>Inconsistent brand voice</b>	<ul style="list-style-type: none"> <li>Dealers that cannot balance the diversity of live stream forms and a consistent brand voice try to spice up a stream with swearing and bad jokes, creating a bad brand impression</li> </ul>	
	<b>Unprofessional hosts</b>	<ul style="list-style-type: none"> <li>Due to insufficient understanding of product features, hosts make errors and are challenged by viewers, reducing brand trust</li> </ul>	A sales advisor to a NEV car brand who mistook the outside temperature displayed in the car for the inside temperature was questioned by the viewer, with the issue resolved later by another sales advisor who left a comment



**Get prepared now: Refer to the best practices and respond to risks**

In light of the epidemic, how should carmakers and dealers adjust their strategies quickly to keep these risks at bay and achieve the greatest effect from live streaming? The measures set out below include case studies for reference.

Remedies	1.High-quality content planning	2.Publicity and promotion	3.Professional support	4.Innovative approach	5.Super influencer effect
<b>Suggested measures</b>	<ul style="list-style-type: none"> <li>Fully understand user needs and choose topics they are really interested in</li> <li>Clear live stream topics can attract potential consumers</li> <li>Enrich forms of live streaming and keep users amused</li> </ul>	<ul style="list-style-type: none"> <li>Use multiple platforms for comprehensive publicity to expand popularity of streams</li> <li>Take advantage of celebrity effect to promote brand</li> </ul>	<ul style="list-style-type: none"> <li>Ensure the professionalism of hosts, standardize language and process, avoid mistakes, ambiguous wording, or rude comments that harm brand image</li> <li>Use professional live streaming sites and equipment to create a good environment for viewers</li> <li>Set up emergency response plans to avoid awkward silences, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Make full use of live stream traffic and be innovative in clue collection to cash in on traffic</li> </ul>	<ul style="list-style-type: none"> <li>Keep creating short videos regularly to increase customer stickiness</li> <li>Follow hot topics to remake and innovate</li> <li>Follow up on viewers' comments to identify various sales clues</li> </ul>

	Official live stream of a German luxury brand during Spring Festival	An internet celebrity endorser
<b>Case studies</b>	<ul style="list-style-type: none"> <li>Arranged separate streams for different car types so users could choose those they are truly interested in</li> <li>Real car explanation + danmu (real time comments) lucky draw + quiz</li> </ul>	<ul style="list-style-type: none"> <li>Promoted and publicized through WeChat official account before streaming, with corporate executives and dealers forwarding promotional articles</li> <li>First live stream reached 41,000 viewers</li> </ul>
	<ul style="list-style-type: none"> <li>Two product professionals arranged to support each other and take respective responsibility for danmu reading, video shooting, question selection and explanation</li> </ul>	<ul style="list-style-type: none"> <li>Promoted RMB1 test drive coupons on live stream, collecting sales clues and eventually turning traffic into offline customers</li> <li>Created 200+ Tik Tok videos to share knowledge of car selection and car purchase stories</li> <li>Was "customer-centric", shooting videos at 4S stores about customers to create Tik Tok videos based on real-life stories, amassing 8 million+ fans and 57.245 million likes</li> <li>Kept things interacting by actively responding to comments, not missing a single sales clue and helping to realize monthly single store deals of 10+ and support 20+ deals nationwide</li> </ul>

Source: Tik Tok, TooBigData, Deloitte Research



## Plan for the future: Thinking framework to address "non-contact" marketing risks

The nine risks in live streaming are also present in other "non-contact" marketing methods. In addition, it is imperative to identify the strategic position of each platform to coordinate marketing and connect with subsequent offline sales activities. We propose a comprehensive approach to "non-contact" marketing risk management covering the four aspects below.

<b>Positioning</b>	Clarify the positioning of each platform, to avoid role overlap and waste of resources.
<b>Effect</b>	Establish a "non-contact" marketing operation mechanism, to avoid bad user experience.
<b>Efficiency</b>	Establish data analysis and clue management mechanisms, to avoid low marketing efficiency.
<b>Compliance</b>	Provide supervision and guidance, to avoid compliance and reputational risks.

### We put forward the following suggestions with specific examples for reference

#### Clarify the positioning of each platform to avoid role overlap and wasted resources

- Understand the advantages of each platform, adjust and match platforms to customer types and each stage of the customer lifecycle, formulate corresponding publicity strategies and allocate resources

**Example:** Using public Weibo and Tik Tok for brand and product promotion, and private WeChat for after-sales service and customer care

#### Establish "non-contact" marketing mechanism to avoid bad user experience

- Perform content operations according to platform features and user needs, coordinate account users for multi-dimensional publicity, give full play to role of each platform
- Establish feedback mechanism for large amount of online users needing frequent real-time interaction; respond quickly to questions to maintain user stickiness.

**Example:** A NEV brand maintained a consistent content framework during the publicity for its brand day activities on multiple platforms, responding to multi-platform questions with unified language to ensure a good user experience

#### Establish data analysis and clue management mechanisms to raise marketing efficiency

- Integrate and analyze the data from multiple platforms to identify user attributes and needs and support refined marketing.
- Establish clue management mechanism to facilitate prompt collection and follow-up of clues and convert high percentage of traffic into sales

**Example:** A German luxury brand provided a test drive link during a live stream on Tik Tok, collecting customer data to gain insights

#### Provide supervision and guidance to avoid compliance and reputational risks

- Regulate or guide dealers' use of mobile media to help them attract traffic effectively and avoid breaching laws or regulations.
- Encourage creativity to attract users, but monitor published content to ensure good image of brand and dealers.

**Example:** A German luxury brand provided dealers with live stream manuals and training to enhance compliance.





## Conclusion

As control and prevention of the epidemic start to see positive results, the customer flow to offline showrooms will gradually recover. But consumers, dealers, and carmakers who have benefited from "non-contact" marketing to save time and money can continue to explore the opportunities it presents. As we have said previously, what took place in the epidemic was not a "decisive battle" in automotive digital marketing, but rather a clarion call for future competition. Brands that understand and manage "non-contact" marketing risks will be able to go further in their transformation of automotive marketing.



For more information, please contact:

### Allan Xie

**Northern Region Deputy Managing Partner  
Risk Advisory Client and Market Leading Partner  
Deloitte China**

Tel: +86 10 8520 7313  
Email: allxie@deloitte.com.cn

### Total Chow

**Risk Advisory Automotive Industry  
Managing Partner  
Deloitte China**

Tel: +86 23 8823 1266  
Email: totchow@deloitte.com.cn

### Pence Peng

**Risk Advisory Partner  
Deloitte China**

Tel: +86 10 8512 5347  
Email: pepeng@deloitte.com.cn

### Dennis Zhang

**Risk Advisory Partner  
Deloitte China**

Tel: +86 10 8520 7248  
Email: denzhang@deloitte.com.cn

### Dai Jiangning

**Risk Advisory Director  
Deloitte China**

Tel: +86 10 8512 4607  
Email: jjadai@deloitte.com.cn

# Office locations

## Beijing

12/F China Life Financial Center  
No. 23 Zhenzhi Road  
Chaoyang District  
Beijing 100026, PRC  
Tel: +86 10 8520 7788  
Fax: +86 10 6508 8781

## Changsha

20/F Tower 3, HC International Plaza  
No. 109 Furong Road North  
Kaifu District  
Changsha 410008, PRC  
Tel: +86 731 8522 8790  
Fax: +86 731 8522 8230

## Chengdu

17/F China Overseas  
International Center Block F  
No.365 Jiaozi Avenue  
Chengdu 610041, PRC  
Tel: +86 28 6789 8188  
Fax: +86 28 6317 3500

## Chongqing

43/F World Financial Center  
188 Minzu Road  
Yuzhong District  
Chongqing 400010, PRC  
Tel: +86 23 8823 1888  
Fax: +86 23 8857 0978

## Dalian

15/F Senmao Building  
147 Zhongshan Road  
Dalian 116011, PRC  
Tel: +86 411 8371 2888  
Fax: +86 411 8360 3297

## Guangzhou

26/F Yuexiu Financial Tower  
28 Pearl River East Road  
Guangzhou 510623, PRC  
Tel: +86 20 8396 9228  
Fax: +86 20 3888 0121

## Hangzhou

Room 1206-1210  
East Building, Central Plaza  
No.9 Feiyunjiang Road  
Shangcheng District  
Hangzhou 310008, PRC  
Tel: +86 571 8972 7688  
Fax: +86 571 8779 7915 / 8779 7916

## Harbin

Room 1618, Development Zone Mansion  
368 Changjiang Road  
Nangang District  
Harbin 150090, PRC  
Tel: +86 451 8586 0060  
Fax: +86 451 8586 0056

## Hefei

Room 1201 Tower A  
Hua Bang ICC Building  
No.190 Qian Shan Road  
Government and Cultural  
New Development District  
Hefei 230601, PRC  
Tel: +86 551 6585 5927  
Fax: +86 551 6585 5687

## Hong Kong

35/F One Pacific Place  
88 Queensway  
Hong Kong  
Tel: +852 2852 1600  
Fax: +852 2541 1911

## Jinan

Units 2802-2804, 28/F  
China Overseas Plaza Office  
No. 6636, 2nd Ring South Road  
Shizhong District  
Jinan 250000, PRC  
Tel: +86 531 8973 5800  
Fax: +86 531 8973 5811

## Macau

19/F The Macau Square Apartment H-N  
43-53A Av. do Infante D. Henrique  
Macau  
Tel: +853 2871 2998  
Fax: +853 2871 3033

## Mongolia

15/F, ICC Tower, Jamiyan-Gun Street  
1st Khoroo, Sukhbaatar District, 14240-  
0025 Ulaanbaatar, Mongolia  
Tel: +976 7010 0450  
Fax: +976 7013 0450

## Nanjing

6/F Asia Pacific Tower  
2 Hanzhong Road  
Xinjiekou Square  
Nanjing 210005, PRC  
Tel: +86 25 5790 8880  
Fax: +86 25 8691 8776

## Shanghai

30/F Bund Center  
222 Yan An Road East  
Shanghai 200002, PRC  
Tel: +86 21 6141 8888  
Fax: +86 21 6335 0003

## Shenyang

Unit 3605-3606, Forum 66 Office Tower 1  
No. 1-1 Qingnian Avenue  
Shenhe District  
Shenyang 110063, PRC  
Tel: +86 24 6785 4068  
Fax: +86 24 6785 4067

## Shenzhen

9/F China Resources Building  
5001 Shennan Road East  
Shenzhen 518010, PRC  
Tel: +86 755 8246 3255  
Fax: +86 755 8246 3186

## Suzhou

24/F Office Tower A, Building 58  
Suzhou Center  
58 Su Xiu Road, Industrial Park  
Suzhou 215021, PRC  
Tel: +86 512 6289 1238  
Fax: +86 512 6762 3338 / 3318

## Tianjin

45/F Metropolitan Tower  
183 Nanjing Road  
Heping District  
Tianjin 300051, PRC  
Tel: +86 22 2320 6688  
Fax: +86 22 8312 6099

## Wuhan

Unit 1, 49/F  
New World International Trade Tower  
568 Jianshe Avenue  
Wuhan 430000, PRC  
Tel: +86 27 8526 6618  
Fax: +86 27 8526 7032

## Xiamen

Unit E, 26/F International Plaza  
8 Lujiang Road, Siming District  
Xiamen 361001, PRC  
Tel: +86 592 2107 298  
Fax: +86 592 2107 259

## Xi'an

Room 5104A, 51F Block A  
Greenland Center  
9 Jinye Road, High-tech Zone  
Xi'an 710065, PRC  
Tel: +86 29 8114 0201  
Fax: +86 29 8114 0205

## Zhengzhou

Unit 5A10, Block 8, Kailin Center  
No.51 Jinshui East Road  
Zhengdong New District  
Zhengzhou 450018, PRC  
Tel: +86 371 8897 3700  
Fax: +86 371 8897 3710

## Sanya

Floor 16, Lanhaihuating Plaza  
(Sanya Huaxia Insurance Center)  
No. 279, Xinfeng street  
Jiyang District  
Sanya 572099, PRC  
Tel: +86 0898 8861 5558  
Fax: +86 0898 8861 0723











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