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DEMAND FOR LUXURY CARS IN CHINA: DEVELOPMENT,
TRENDS AND PROSPECTS

Degree Programme in International Business
2014

LUKSUSAUTOJEN KYSYNTÄ KIINASSA: KEHITYS, TRENDIT JA TULEVAISUUDENNÄKYMÄT

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Kansainvälisen kaupan koulutusohjelma
Huhtikuu 2014
Ohjaaja: Tekajarin, Pathinee
Sivumäärä: 50
Liitteitä: 1

Asiasanat: Kiina, autot, ylellisyys, kuluttajakäyttäytyminen

Tämän opinnäytetyön tarkoituksena on tutkia luksusautojen kysyntää Kiinassa, ja sitä miten se on kehittynyt, mitä trendisuuntauksia on ja mihin suuntaan kehitys on menossa. Tutkimuksen aihe valikoitui sen kiinnostavuuden ja aiheen ajankohtaisuuden takia. Tavoitteena oli saada selville mikä on kysyntä luksusautoille Kiinassa, minkälaisia ovat luksusautoja ostavat kiinalaiset kuluttajat, mitä trendejä on nähtävissä ja mitä ominaispiirteitä Kiinan markkinoilla on luksusautojen saralla.

Tutkimuksessa käytettiin kuvailevaa tutkimusmallia ja tutkimusmetodi oli kvalitatiivinen, joka valikoitui käytetyksi metodiksi, koska kvalitatiivinen tutkimus kykenee kuvaamaan kulttuurista johtuvia tekijöitä kuten arvoja ja käyttäytymistä. Pääasialliset tietolähteet olivat internet-artikkelit, kirjat ja haastattelut.

Tulokseksi saatiin, että Kiinan luksusautomarkkinat ovat jatkuvassa nousussa ja myyntimäärät tulevat nousemaan tulevaisuudessa huomattavasti ja Kiina on jo monille valmistajille tärkein markkina-alue. Huomioitavaa kuitenkin on, että sisäiset eroavaisuudet ovat Kiinassa suuret ja tästä johtuen Kiinan käsittäminen yhtenäisenä markkina-alueena on ongelmallinen. Kuluttajien mieltymykset ja kulutuskäyttäytyminen poikkeavat toisistaan Kiinan eri osissa. Huomioitavaa on myös, että varallisuuserot Kiinan sisällä vaikuttavat kuluttajien kyvykkyyteen ostaa luksusautoja.

Yleisellä tasolla voidaan tutkimuksen pohjalta todeta, että status on suurin yksittäinen syy miksi kiinalaiset kuluttajat haluavat ostaa luksusautoja. Muut tekijät tulevat vasta kaukana. Tämän vuoksi se, miten kuluttajat näkevät brändin ja brändin imagon ovat ensisijaisia. Kiinalaiset kuluttajat haluavat luksusautolla tuoda esiin omaa persoonallisuuttaan ja täten tietty eksklusiivisuuden miellelyhtymä auton brändiin on tärkeää. Länsimaisiin kuluttajiin verrattuna kiinalaiset ovat myös halukkaampia maksamaan enemmän, jos he uskovat saavansa laatua tai paremman statuksen.

Kiinalaiset kuluttajat suosivat luksusautojen saralla erityisesti ulkomaalaisia merkkejä, joilla on vahvat perinteet. Tutkimuksen pohjalta voidaan myös todeta, että menestyminen Kiinan luksusautomarkkinoilla vaatii johdonmukaisuutta ja sitä, että tietää mille kohderyhmälle haluaa myydä ja, että noudattaa johdonmukaisesti suunnitelmaa.

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Degree Programme in International Business
April 2014
Supervisor: Tekajarin, Pathinee
Number of pages: 50
Appendices: 1

Keywords: China, cars, luxury, consumer behaviour

Purpose of this thesis was to investigate what is demand for luxury cars in People's Republic of China and how it has developed, what trends there are and what direction development is going currently. The topic of this thesis was selected based on how interesting it is and how current the topic is at the moment. Objective was to find out what is the demand of luxury cars in China, what kind of buyers Chinese consumers are in field of luxury cars, what trends there are and what are the characteristic features of China's luxury car market.

Descriptive research model was used in this thesis. Research method was qualitative which was chosen because qualitative research can describe better factors that are related to culture, for example values and behavior. Principal information sources in this thesis were internet articles, books and interviews with 3 persons who work in the field of luxury cars in China.

Research findings were that luxury car market in China is on constant growth and sales volumes will increase significantly in the future and that China is already the most important market area for many luxury car makers. However according to findings there are major differences within China and because of that it is problematic to consider China as homogenous market area. Consumers' preferences and consumer behavior are different in different parts of China. Also varying income levels between different parts of China effect on consumers' ability to buy luxury cars.

According to research findings it can be said that status is the single most important reason what Chinese consumers consider when buying luxury car. Other reasons come far behind. For this reason it is very important how consumers see the brand and brand image. Chinese consumers want to express their personality through luxury car and thus some kind of exclusiveness in brand image is significant. Compared to Western consumers Chinese are also more willing to pay more if they believe they will get good quality or better status.

Chinese consumers prefer especially foreign cars with strong traditions. Based on research findings it can be said that being successful in China's luxury car market requires consistency and knowing target segment and following plan consistently.

TABLE OF CONTENTS

1	INTRODUCTION.....	5
2	PROBLEM SETTING AND CONCEPTUAL FRAME OF REFERENCE.....	7
2.1	Research problems	7
2.2	Conceptual frame of reference.....	9
3	METHODOLOGY.....	10
4	CHINA AND LUXURY	12
4.1	China in nutshell	12
4.2	Cultural background.....	14
4.3	Rise of rich Chinese	16
4.4	What is luxury?.....	17
4.5	Development of luxury culture in Asia	18
4.6	Attitudes towards luxury	20
4.7	Reasons why Chinese buy luxury	21
4.8	Importance of brands.....	23
5	LUXURY CARS AND CHINA	25
5.1	Current situation.....	25
5.2	Future.....	26
5.3	Sales volume of luxury cars in China.....	28
5.4	Factors that can effect on sales of luxury cars in China.....	30
6	CONSUMER BEHAVIOR TOWARDS LUXURY CARS.....	32
6.1	Consumer buying process and factors that effect on that.....	32
6.2	Reasons why Chinese buy luxury car	34
6.3	Chinese consumer who buys luxury car.....	34
6.4	Diversity of preferences	36
6.5	How to market luxury cars to Chinese?	37
6.5.1	Marketing strategies	37
6.5.2	Branding.....	39
7	RESEARCH FINDINGS.....	41
8	CONCLUSION.....	45
	REFERENCES	47
	APPENDIX	

1 INTRODUCTION

This thesis aims to find more information about what kind of prospects People's Republic of China (later on referred as China) has in field of luxury car sales, what are the key motivators to Chinese consumers to buy luxury cars and in which direction consumer preferences are developing.

China's demand for luxury car is higher than ever and its markets are very tempting and lucrative for car makers. Due to China's remarkable economic growth China has been taking great leaps forward in very short time and development has been really fast. Just few decades ago China was a developing country, which some could consider even as backward country, where basically no one had personal car except a very tiny elite, but nowadays seeing flashy cars in the street of Chinese cities like Shanghai is almost as common as eating *shengjianbao* (traditional pan-fried bun that is very popular for example in Shanghai) for breakfast. Old *hutongs* (alleys formed by lines of traditional courtyard residences) have been replaced by skyscrapers that are reaching towards the sky, Mao suits have changed to designer clothing and bicycles have been replaced by cars.

Even though major of Chinese are still relatively poor when compared to people living in Western countries, there are still plenty of Chinese who are willing to spend their money on luxury. Sales volumes of high-end cars are growing all the time in China and more car makers are setting their eyes on China when planning their future strategy. Thus China's significance as a car market cannot be underestimated in any way.

China economy has been going through rapid growth in past few decades and as China and Chinese people have become richer, the demand for luxury items like cars is now higher than ever in China. Currently China is the second largest luxury car market in the world and it is estimated that China will surpass USA in 2016. However China is difficult and different market area and this will continue to challenge foreign luxury car makers who are in China. (China Luxury Car... 2013)

Purpose of this thesis is to find out more relevant, reliable and useful information about China's luxury car markets. Point of view in this thesis is from foreign company's (Western) perspective. However this thesis aims to give more information to anyone who has interest on China's luxury car market. Main objective is thus to find out what kind of markets there are in China for luxury cars and how Chinese see foreign brands compared to Chinese brands. Finding out how demand for luxury cars in China will develop in near future is also one of important purposes in this study. Also describing consumer behavior of Chinese is one of main purposes. This means that this study tries to give good overall picture of China as market for luxury cars, what Chinese consumers consider important and what foreign luxury car makers should do in order to success in China and what issues should be taken account when planning strategy for China.

In this thesis theoretical part is started with chapter that deals with China and luxury. Main focus on that chapter is to describe China as a country since understanding that is important in order to understand China as market area. Attention is also paid on rise of *nouveau riche* in China, because that segment is important for luxury car makers.

First chapter of theoretical part also describes development of luxury in Asia and at what stage China is at the moment and what can be expected in the future if China follows in the footsteps of other Asian countries. The first chapter also focuses on what kind of attitudes Chinese consumers have towards luxury in general and what reasons they have to buy luxury items.

Second chapter in this thesis deals more specifically with luxury cars and China. What is the situation concerning sales figures and what direction sales figures are expected to develop. Also what efforts foreign companies have made in China to increase their competitiveness and what factors can effect on sales of luxury cars in China are looked up in second chapter.

The last chapter of theoretical part, focus on consumer behavior towards luxury cars in China. Issues that this part includes are reasons and motives which drive Chinese to purchase luxury cars and what kind of marketing strategies works in China. Since this

thesis is done from foreign company's point of view this chapter reviews branding and how Chinese people see foreign brands and domestic brands.

Theoretical part is followed by empirical part which is composed from interviews with 3 interviewees who have first-hand experience from China's luxury car market. Persons that are interviewed are working in luxury car industry in senior position. Thus they can give more insightful view on the topic of this thesis. The main meaning of empirical part is to get more "practical" knowledge of thesis' topic and compare interview findings with theoretical part's findings and make analysis based on both. With the help of empirical part's findings it will be easier to get overall picture of China's demand for luxury car and how it is developing. Since interviewees have extensive experience on luxury car markets in China, interview findings are highly important and valuable source of first-hand information.

2 PROBLEM SETTING AND CONCEPTUAL FRAME OF REFERENCE

2.1 Research problems

Research problem is to find out what is the demand of luxury cars in China. Is there a demand for that kind of cars or not. If there is demand, what are the driving forces behind this demand and how it has developed and how the demand will change in the future.

Research questions in this thesis are:

1. What is the demand for luxury cars in China?

This question aims to find out what is the overall demand for luxury cars in China now and how the demand has been developing and how development will likely continue.

2. *What factors effect on demand for luxury cars in China?*

With this question it is purpose to find out what kind of factors there are in China that can effect on luxury car sales, what those factors are and what are possible effects and outcomes.

3. *What are current trends in luxury cars in China?*

Objective with this question is to figure out what trends are strongest in China at the moment, what are these trends and why they have become trends.

4. *What kind of attitude Chinese consumers have towards luxury cars?*

This question aims to find out what kind of attitude Chinese consumers have towards luxury cars, what things they associate with luxury cars and are these associations encouraging or discouraging purchase of luxury car.

5. *How much there is competition in this sector in China at the moment?*

This question aims to get general picture of what kind of competition there is in China concerning luxury car sales. Especially is there still place for latecomers in markets or not.

6. *How marketing luxury cars in China differ from marketing luxury cars in Europe or USA?*

With this question the purpose is to find out how China differs from luxury cars' more traditional market areas. What things need to be done differently and why, and what are the key points when doing marketing in China.

With these research questions objective is to get more insightful knowledge about the subject and also learn more new information about where the demand of luxury cars in China is going, what is the current situation and how it is expected to develop in the near future and what elements make China different market compared to other markets. Also finding out what kind of consumers Chinese are when it comes to luxury cars is one of essential objective of this thesis' research questions.

2.2 Conceptual frame of reference

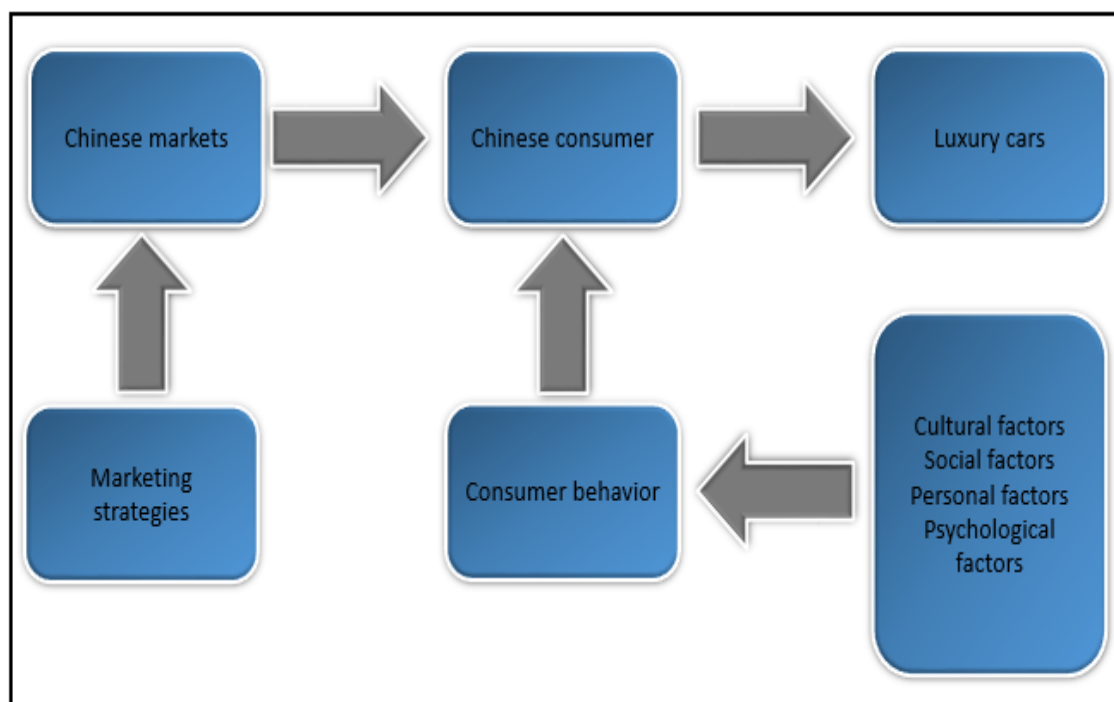


Figure 1. Conceptual framework

The conceptual frame of reference will describe buyer's decision process and try to apply that to fit especially on behavior towards buying luxury items in general terms and more specifically luxury cars.

What kind of markets there are in China and what kind of marketing strategies Chinese markets require? What kind of consumers Chinese people are? How cultural, social, personal and psychological factors effects on consumer behavior of Chinese? By finding out these things with theoretical and empirical findings it is objective to figure out how these issues effect on luxury car sales in China, what is the demand and what preferences Chinese consumers have.

The main idea is to get clear picture about what factors effect and how they effect on consumers when they are considering purchasing luxury cars.

3 METHODOLOGY

Data used in this thesis is collected from books, internet sources and interviews with persons who have relevant and insightful knowledge and experience from China's luxury car markets. Since China's markets are developing fast, internet sources were used more than book sources because they were considered to be more up to date.

Research design of this thesis is descriptive because this thesis aims to answer "what" is the demand of luxury cars in China rather than answering question like "why" the demand exist. Thesis try to describe what is the demand of luxury cars, what kind of consumer Chinese person who buys luxury car is, what trends exists and what are the characteristic features in China concerning luxury car sales.

Research method is qualitative since, instead of conducting interviews with large amount of people, in-depth interviews with few selected persons are conducted. Qualitative method is also suitable for this thesis because interviews will not include multiple-choices type of questions, but answers which cannot be measured for example in numerical way and no statistics can be made.

Qualitative research typically seeks answer to a question and collects evidences. Qualitative research's result findings are not determined beforehand and they are often applicable to be extended to other fields as well. Qualitative research's good sides are that it helps to understand cultural issues like values and behavior. (Qualitative Research Methods... 1)

Semi-structured methods like in-depth interviews are typically used in qualitative research. Compared to quantitative methods like surveys, in-depth interviews give better and more extensive answers since questions are open-ended, meaning that interviewees can reply with their own words instead of choosing an answer like in closed-ended surveys. However quantitative method needs good understanding from researcher because open-ended questions also enable greater possibilities for misinterpretations between interviewer and interviewees. (Qualitative Research Methods... 3-4)

Interviews are used in thesis to help to gather information about the subject. Interviews are planned to conduct only for a small sample since the purpose of these interviews is to get more insightful information of Chinese consumers and luxury cars and compare this with theoretical findings. Interviewees are selected based on their profile. Since thesis is focusing on high-end cars interviewees must work in China for company that is working in luxury car sector and hold position in manager level in order to give wider view on subject. Totally 3 persons will be interviewed. Since amount of interviewees is limited to relatively small sample all interviewees must fit the profile mentioned and preferably also possess experience from working in luxury car industry in Europe or USA so that comparison between these areas and China can be made and unique features of China's luxury car market can be studied with clearer vision. Since answering to interview questions requires expertise it is necessarily that interviewees have extensive knowledge of the subject, thus interviews cannot be conducted in large scale and it is better to have few selected candidate who has expertise and can answer questions with wider knowledge. Also the fact that questions are not closed supports the chosen method. Selecting interviewees happens by first screening which people have suitable background and expertise. After this suitable persons will be contacted via email concerning interview.

For interviews questions (see Appendix) are used as a frame of interview. Questions are planned to assist on solving research problems and thus all questions are related to research problems.

Data is collected on Skype interviews or face-to-face interviews if it is possible. In this way additional questions can be asked when something interesting issues arise. After all interviewees have been interviewed the collected data will be analyzed by comparing answers from different interviewees and making conclusions. After this final conclusion based on both theoretical and empirical part can be made.

Interviews are conducted with 3 persons who has expertise related to China's luxury car market so research findings can be considered reliable and results can be assumed to be same even if larger number of experts of this subjects would be interviewed. Interviewing only one person would cause issues about reliability, but 3 persons is

enough big to make needed conclusions and thus research findings can be considered valid.

Number of interviewees is relatively small, but since all interviewees can be considered as “experts” in the field that this thesis is about research finding can be considered as valid and reliable. Interview questions will be same in every interview so there are no differences on used questions which could effect on reliability of findings. The goal is that no external factors effect on interview situation so that if interviewees would be asked same questions later, the answer would be the same. For example if all interviewees give answers that are similar to other interviewees’ answers for the same question it can be presumed that answer would be similar if question would be asked from randomly selected expert. Since all interviewees are experts there is no need to interview extensive group of people in order to get valid and reliable answers.

Because I have spent more than two years in China I also try to apply my personal knowledge and what I have learned over my time in China when information is relevant and it can be applied.

4 CHINA AND LUXURY

4.1 China in nutshell

China’s population is 1.35 billion people which makes China the largest country in the world in terms of population. By land area (9.6 million km²) China is 4th largest. (Webpage of Central Intelligence Agency 2013.)

China has 23 provinces (Anhui, Fujian, Gansu, Guangdong, Guizhou, Hainan, Hebei, Heilongjiang, Henan, Hubei, Hunan, Jiangsu, Jiangxi, Jilin, Liaoning, Qinghai, Shaanxi, Shandong, Shanxi, Sichuan, Taiwan, Yunnan and Zhejiang) although Taiwan’s position as a province of China is seen internationally very questionable. (Webpage of Central Intelligence Agency 2013.)

Autonomous regions are Guangxi, Inner Mongolia, Ningxia, Tibet (also known as Xizang) and Xinjiang Uygur. From these autonomous regions it is important to know that political situation in Tibet and Xinjiang is extremely tensed. In Xinjiang native people, the Uighur, widely consider Chinese as invaders and violent confrontations are not unusual. (Palmer 2013; Webpage of Central Intelligence Agency 2013.)

Beijing, Chongqing, Shanghai and Tianjin are they own municipalities. Hong Kong and Macau are special administrative regions of China (in this thesis Hong Kong and Macau are excluded). (Webpage of Central Intelligence Agency 2013.)



Figure 2. Map of China (Webpage of Uchinavisa 2013.)

China's is country with many diverse and climate includes everything between tropical and subarctic, and terrain includes plateaus, plains, mountains and deserts. China's population is mainly Han Chinese (91.5%) and the official language is Putonghua (also known as Mandarin) which is based on Beijing dialect, but it is not a native language to all Chinese since in many regions people speak their own dialects (for example Shanghainese, Sichuanese and Cantonese). However Putonghua is *lingua franca* that most of Chinese speak and understand. (Webpage of Central Intelligence Agency 2013.)

Considering China's size (by land and population) and differences between regions it is important to understand that it is slightly difficult to make generalizations which would apply to whole China, although China is ethnically very homogenous and thanks to country's long history cultural core values are relatively same in all parts of China.

China's history dates back to thousands of years, but for the first time China was unified by Qin Shi Huang, who became the first emperor of China, in 221 BCE. This was start to imperial rule in China which lasted over a two millennia. Imperial rule ended in 1912 when the Republic of China was born and Qing-dynasty was overthrown. (Webpage of Central Intelligence Agency 2013.)

In October 1st 1949 the People's Republic of China (中华人民共和国) was established. People's Republic of China is namely a communist country and it is single-party state led by Chinese Communist Party but its politics, especially what it comes to economy, cannot be considered as communist. In some sense China's policies are actually very capitalist. (Webpage of Central Intelligence Agency 2013.)

All in all, it is important to realize that there are major difference between regions in China and the reality were most of Chinese live is far from the life that people in 1st tier cities (name for the most developed cities, which are Beijing, Shanghai and Guangzhou) live. Also it is crucial to be aware that China's history, from imperial rule to Mao's era with all its extremities, reflects on how people think and what they value. In China past's impact on present cannot be underestimated.

4.2 Cultural background

Since China's history dates back to thousands of years many different ideologies and beliefs have effected on Chinese culture. In the core of Chinese culture is Confucianism which affected more than 2000 years in China and its culture although during the Cultural Revolution it was tried to eradicate along with other old values and traditions, but Confucianism survived that. Confucianism emphasizes hierarchy and different kinds of relationships between people. (Chang & Cheng 2009, 97.)

Confucianism is strong part of Chinese culture and its key element is obligations between different parties in relations, for example emperor/subject and parent/child. So for Chinese it is important to follow these obligations and not create confrontation. In consumer behavior this can be seen in tendency to be very aware of other people's opinions. This creates a situation where products that are recognized by other consumers are most highly sought after. (Chevalier, Lu 2011, 65.)

Inside the family, the most important unit in Chinese society, one's position is clearly defined based on Confucian values but outside family one's position and status is unclear. According to research this makes Chinese to make certain types of purchases. Having uncertain position and status creates need to project one by buying well recognized branded goods, more visible the better. Outside of home showing status is important, but inside of home there is no need to project one. Thus Chinese tend to use significant amounts of money on high-end branded goods that other people can see, but inside of homes they will settle for low-end branded goods. (Chang & Cheng 2009, 54.)

Collectivism is one of the core elements of Chinese society and because of that individual's achievements do not reflect only to individual itself but also individual's family and relatives. According to study findings things like importance of personal appearance and keeping up with trends are more important in collectivist cultures than what they are in individualistic cultures. (Chang & Cheng 2009, 55.)

One of the most important elements in Chinese culture is *mianzi* (面子) which means face: saving face, losing face and giving face to someone. Having good face is essential for Chinese and it affects greatly on things like *guanxi* (关系) that can be roughly translated to mean a network of personal relationships. Concepts of *mianzi* and *guanxi* are considered the two most important concepts in interpersonal relationships in China. (Chang & Cheng 2009, 98.)

4.3 Rise of rich Chinese

China's recent rise to economic super power has been remarkable. When Chairman Mao died in 1976 China was severely weakened due disastrous the Great Leap Forward and Cultural Revolution. Turning point in China's economic development happened when Deng Xiaoping became the *de facto* leader of China in 1978. In Deng's era China did open its markets and switched from centrally planned economy to more market oriented system. Changes that took place in Deng's reign enabled millions of people to rise up from extreme poverty. In terms of demand for luxury cars in China today Deng's reforms were important because when Deng took power in 1978 there was no class wealthy people.

Changes in China's political and economic climate in 1980s and 1990s were the start point to the birth of "*nouveau riche*" in China. Today China is the world second largest economy in the world and it is still rapidly growing. However it is still good to bear in mind that in 2012 GDP per capita was only 9,100 USD and differences between provinces are wide and distribution of wealth is highly unequal. For example Gini coefficient (index which measures degree of inequality in the distribution of family income in a country) was estimated to be in China 0.61 in 2010 which is 50 percent higher than a risk level for social unrest. China's government has not released official numbers after year 2000. Based on this number it is easy to see that in China wealth is not distributed equally and most of the wealth is concentrated on hands of few, but since China is the world largest country by its, 1.35 billion people, population, even that small wealthy class sums up to be millions of people and this wealthy part of population is the segment that luxury car sellers try to reach.

(Webpage of CIA 2013; Zheng 2012.)

According to National Bureau of Statistics in 2012 only provinces/municipalities in China that reached the level of high income country (more than 12,276 USD per capita) were Beijing, Tianjin and Shanghai. 24 provinces/municipalities reached the level of middle income country (3,976-12,275 USD per capita) and 4 provinces were at the level of low income country (1,006-3,975 USD per capita). It is estimated that in 2014 wages will rise 10 percent in China. Rising salaries will enable higher consumption level. (China Wages Seen... 2014; Webpage of National Bureau of Statistics 2013.)

Hurun Report released on February 2013 its “Hurun Global Rich List 2013”. According to Hurun Report there are 317 billionaires (persons with wealth over 1 billion USD) in China which accounts 21.8 percent of world’s billionaires. This means that only USA has more billionaires than China. China also has more than 1 million persons with wealth over 1 million USD. (Webpage of Echincities; webpage of Hurun Report 2013.)

By 2020 China will have 23 million urban households with annual disposable income of more than 200,000 RMB according to a global management consulting firm McKinsey & Company. (Ren 2013.)

Since many rich Chinese have gathered their fortune in relatively short time there is also “rags to riches syndrome” which causes that quick rose to riches makes them purchase luxury goods like there is no tomorrow. (Chadha & Husband 2006, 154.)

4.4 What is luxury?

Defining luxury is not simple and views what luxury is vary a lot. Item that is ordinary to someone can be luxury to someone else. What luxury is cannot be exactly defined and views are always subjective.

However luxury is often understood as something that gives person something extra (like some additional functionality) or gives more satisfaction than ordinary item. Merriam-Webster defines luxury as a) something adding to pleasure or comfort but not absolutely necessary b) an indulgence in something that provides pleasure, satisfaction, or ease. (Webpage of Merriam-Webster 2013.)

Demand for luxury is currently booming in China and in 2012 14.6 billion USD were spent on luxury goods in China and it is estimated that by 2020 44 percent of global luxury goods are sold in China. However in 2013 estimated growth was “only” 2.5 percent and total value being 21 billion USD, which is 4th biggest in the world after USA, Japan and Italy. (Findlater 2013; Wallius 2013.)

Defining what cars are luxury cars is quite subjective matter as well and there are no specific classifications what cars fall to this segment. For example McKinsey defined this segment including brands like Mini, Audi, Volvo, Porsche Cadillac, Ferrari, Lamborghini and Aston Martin, with each vehicle costing between 200,000 RMB and 1.2 million RMB. (Ren 2013.)

As for comparison China's most popular mini car's, Chery QQ, models that came to sale on March 2013 can be bought with a price as low as 37,900 RMB. Older models that are still in production can be obtained with price starting from 27,000 RMB. (Restyled Chery QQ... 2013.)

4.5 Development of luxury culture in Asia

In Asia the development of luxury culture can be divided into five different stages. Those stages are:

1) *Subjugation*. This is stage where dominant features are authoritarian rule combined with poverty and deprivation. In 1949 when the People's Republic of China was created the country was totally under totalitarian rule and most of Chinese dwelled in poverty and were force to face ordeals of the Great Leap Forward and famine which death toll is estimated to be between 15 and 45 million. After this came Cultural Revolution with its terror. Dream of shared wealth had led to shared poverty.

2) *Start of money*. In this stage economy starts to grow and the wealthy small elite turn to luxury. In China this stage started when Deng took power and turned around China's direction and started to emphasize more free economy.

3) *Show off*. In this stage people start to acquire luxury as for symbols of wealth and success, in other terms to show off their wealth to others. This is the stage where China is currently. For Chinese it is very important to own items that are considered as luxury and many people are more than

willing to spend their few months' salary just to get new iPhone or Louis Vuitton handbag on their hands and being expensive item is seen as value itself. Collectivist nature of Asian people works for the benefit of luxury brands, in order to be socially accepted you must have certain status symbols, for example in China having an iPhone or Mac or just sipping Starbucks coffee are must for person who wants to be seen as successful. If person fails to live up expectations it might cause person being seen as socially deficient or even cause losing face.

4) *Fit in*. In this stage luxury items are adapted by larger proportion of population and the demand for luxury is fueled by need to conform.

5) *Way of life*. In this stage people are locked into habit of buying luxury and are confident and discerning buyers. In other words they know what they want and do not just blindly buy something that is expensive just to show off. (Chadha & Husband 2006, 43-44.)

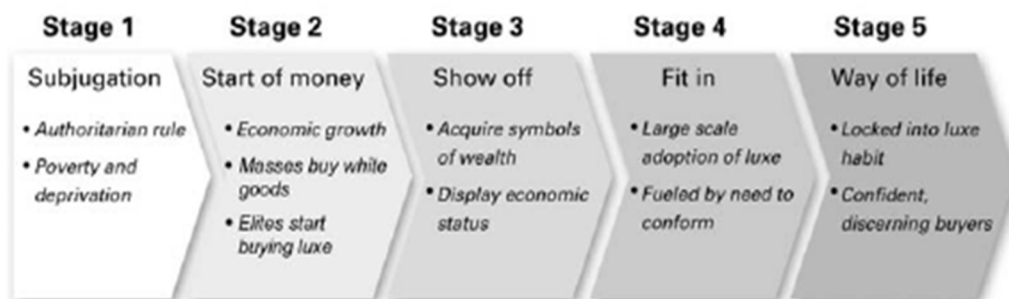


Figure 3. The Spread of Luxury model. (Chadha & Husband 2006, 43.)



Figure 4. Asian countries' stages of luxury evolution. (Chadha & Husband 2006, 46.)

Based on model presented above is not possible to define exactly how individual country's situation will develop but prediction and assumptions to which direction country is going can be made based on the development of other Asian countries. So when assessing where China is now it is very easy to see that there is a huge potential for luxury brands (including luxury cars) to increase their sales volume in China once country enters to Fit in and Way of life stages.

4.6 Attitudes towards luxury

One question that is easily risen up when talking about China and its insatiable desire for luxury is how people can afford to buy such items, especially when considering that China GDP per capita is only 9,100 USD? Answer is that China's wealth is very unequally distributed and the gap between the poor and the rich is wide. Since China's economic growth is very fast, new fortunes are created all the time and those with money are more than eager to show-off their wealth and purchasing luxury items is easy way to do this. (Chadha & Husband 2006, 17.)

Since luxury items define person's status in the society also people with not so much money want to get their piece of luxury. Caroline Roberts (Dolce & Gabbana Far East) says that "It is the Chinese mentality. You don't have to live very well, but you must have a nice car and a nice watch." Luxury lifts individual from faceless mass to a success story. Even individuals who are not that wealthy are willing to splash their money on luxury which is in quite contradiction Chinese people's usually frugal handle of money. So even Chinese people count their money wisely when purchasing products they are also willing to pay significantly more if they believe that they are getting premium. So it is good to bear in mind that Chinese consumers prefer to buy quality goods, even with higher prices. (Chadha & Husband 2006, 42 & 46; Wei 2013.)

According to HSBC China affluent study 2007 the affluent consumers have positive attitude towards luxury products. For these people good quality (48 percent of corresponds) was clearly the biggest motivation for purchasing luxury goods. (Chevalier, Lu 2011, 32.)

Study conducted in 2008 found out those attitudes towards people who own luxury brands were:

- 64% They are successful
- 53% They have good taste
- 28% They are fashionable
- 18% They are show-offs flashy
- 14% They are “nouveau riche”
- 14% They are wasting money
- 3% They are superficial

4.7 Reasons why Chinese buy luxury

How you look, what clothes you use or what kind of car you drive defines you as a person. Having luxury goods is way to mark your social status and people create their identity and self-worth based on what they own and wear. Through luxury items person can show his/her social position and create his/her identity. It is very important that other people are also able to see that you own luxury, for example if you have Gucci's handbag it is preferable that the bag has very visible Gucci's logo. (Chadha & Husband 2006, 3.)

Showing your wealth defines your place in society and more you spend the higher is your status. If you look like a person with a lot of money you are seen as successful person, which attract more opportunities to create wealth. In Western countries people also show off their wealth but the way people do it can be described some way more discreet and tasteful. In China there is not such downplayed display of wealth and even some Chinese wealthy people have posted pictures of their bank balances online in order to show off their wealth. In few words buying luxury gives person *mianzi*. (Chadha & Husband 2006, 144; Webpage of Echinacities 2013.)

For Chinese people owning luxury goods that signify their success is even more important than what is for Western people. Thus items that show your wealth and success are highly desired and in modern China being rich is considered as glorious. Quotation “getting rich is glorious” is often linked to Deng Xiaoping (however it is uncertain did

he actually say that or not) and it defines quite well the mind set of Chinese. (Chevalier, Lu 2011, 64.)

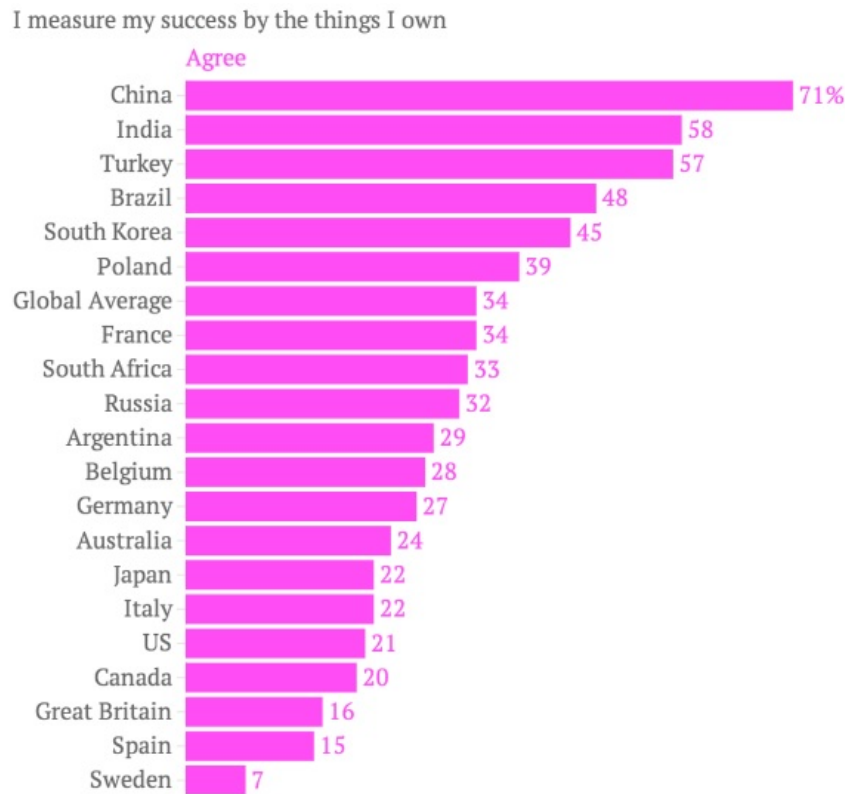


Figure 5. Results of survey conducted by IPSOS (Webpage of Quartz 2014.)

Chinese people are also extremely materialistic and according to survey Chinese are ranked as the most materialistic nation in the world (see above Figure 5). On question “I measure my success by the things I own” staggering 71 percent of Chinese agreed. This was the highest number among the countries that were included in this global survey. India was on second position, but its corresponding number was “only” 58 percent. Chinese number is also more than double the global average. (Ferdman 2013.)

One thing to take account when considering the status, that owning luxury items gives, is family. In China, like in many other Asian countries, family is extremely important. Thus having luxury and looking successful gives face to one’s family also. Another thing that has effect on China’s luxury sales is the gift giving tradition which is important part of Chinese culture and thus luxury items are often bought for gifts to relatives, business partners and mistresses. Giving gifts is also part of maintaining and

building *guanxi* (can be seen as one's social network) that is crucial in Chinese culture. However the difference between corruption and gift giving is often indistinct, but that is the way business works in China. (Chadha & Husband 2006, 145 & 153.)

In China having mistress/mistresses is also something that is seen as status symbol. Having "second wives" (*er nai*, 二奶) is almost institutionalized in China and for example in Shenzhen there are complete "mistress villages". Having *er nai* does not come cheaply (thus it seen as status symbol) and often providing apartment and car (preferably luxury car) are part of the deal. Naturally all other kinds of luxury products are also bought to these *er nais* and their influence on luxury sales should not be underestimated. (Chadha & Husband 2006, 150.)

4.8 Importance of brands

Brand is one of the most important things that consumer considers when making purchase. Brand could be defined as "unique design, sign, symbol, words, or a combination of these, employed in creating an image that identifies a product and differentiates it from its competitors. Over time, this image becomes associated with a level of credibility, quality, and satisfaction in the consumer's mind. Thus brands help harried consumers in crowded and complex marketplace, by standing for certain benefits and value. Legal name for a brand is trademark and, when it identifies or represents a firm, it is called a brand name." (Webpage of Business Dictionary 2013.)

How Chinese view brand is important factor. Brands with power can keep more premium prices without that Chinese consumers would start to bargain on price, but weak brand cannot act in a same way since generally speaking Chinese are very price sensitive in everyday life. (Dunne & Dunne 2011, 153.)

In Chinese culture what other think about you is crucial and going against the grain is not looked well traditionally. In culture where person's individuality is curtailed by social norms people are using brands to express their individuality. By purchasing brands person can associate him/her to values and attributes that brand represents and gain more personality.

Chinese are also coming more aware of brands. According to KPMG's study in 2013 Chinese consumers were familiar with around 59 luxury brands. In 2006 corresponding number was 34. (Webpage of Echinacities 2013.)

Most important factors to Chinese female consumers are status and reputation of the brand. Also brands which are more than 100 years old are valued more among female consumers than younger brands because older brands are seen as more mature and having wider experience in customer service. Especially brands from France, Italy and Britain are desired by consumers due their rich heritage. (Webpage of Echinacities 2013.)

Despite the fact that Chinese value foreign brands, many luxury brands are actually made in China, but labeled "Made in Italy" etc. For example 20 percent of Prada's collections are made in China but sold to consumers as foreign product. (Findlater 2013.)

In 2013 bestselling (by units) car brands in China were following according China Passenger Car Association (CPCA). However this information includes only cars which were made in China and are two-/three-box sedans, SUVs, or MPVs. Below is figure that shows bestselling brands in China 2013.

Rank	Brand	Sales in 2013
1	Volkswagen	2395696
2	Hyundai	1030808
3	Toyota	857749
4	Nissan	843063
5	Buick	807700
6	Honda	729568
7	Chevrolet	714743
8	Ford	678951
9	Kia	546766
10	BYD	506189
11	Changan	500500
12	Wuling	448484
13	Chery	437044
14	Audi	411730
15	Great Wall	347672
16	Citroen	280001
17	Great Wall Haval	279764
18	Peugeot	272072
19	Skoda	231200
20	Suzuki	229535
21	BMW	207327
22	JAC	203498
23	Geely Emgrand	203491
24	Geely Gleagle	197410
25	Zhonghua (Brilliance)	188143
26	Mazda	184257
27	Dongfeng Fengxing	180189
28	Haima	157242
29	SAIC Roewe	155336
30	Lifan	153462
31	Geely Englon	148492
32	Mercedes-Benz	123600

Figure 6. Bestselling car brands in China 2013 (2013 Passenger Vehicle... 2014.)

5 LUXURY CARS AND CHINA

5.1 Current situation

Foreign car makers are increasingly starting to produce their cars in China in order to avoid 25 percent import taxes. For example Volvo (Volvo is owned by Chinese company Geely) which has so far brought its cars overseas (or produced small numbers at Ford's Chongqing factory) has plans to start production in China. Volvo's first factory

in Chengdu is supposed to start production on last quarter of 2013. Second factory will be located in Daqing and will start production late in the year 2014. Also General Motors, Cadillac, Nissan and Honda have reported their plans to start car production in Chinese soil. (Volvo Is China... 2013.)

Even though the number of cars has been increasing fast and steadily in China, still it is far behind Western countries in cars per capita. For example in Beijing, the capital of the People's Republic of China, there were "only" 5.2 million cars in 2012. In Finland totally there were 3.6 million cars in 2012. When comparing the populations of Beijing and Finland it is easy to see the difference, Beijing's population is 20.7 million and Finland's population is 5.4 million, but still there is not that big difference in number of cars even though Beijing's population is almost four times bigger than whole population of Finland's. However since China is still considered in some way as developing country it is better to pay attention to how much the number of cars grow. In 2000 there were only 1.6 million cars in Beijing so the number of cars has increased by 325 percent in twelve years. In future China's economic growth and consumers' increasing incomes will make sure that there will be more and more cars in China, the world largest car market. (Webpage of Beijing Statistical Information net 2013; webpage of Central Intelligence Agency 2013; webpage of Helsingin Sanomat 2013.)

What is important to notice in China's luxury markets is taxation. Cars produced outside of China have 25 percent tariff. Import duties, VAT and consumption taxes of luxury goods can raise to 50 percent. This has created phenomenon that rich Chinese travel abroad to purchase their luxury items (bags, fashion brands etc.), however this applies to goods that can be taken back to China easily without difficulties, for example item like car cannot be imported to China without problems. (Findlater 2013; Ma & Hagiwara 2013.)

5.2 Future

According to McKinsey's analysis upcoming trends in China in the next 10 years will be:

- 1) Sales of SUVs will triple. Sedans still the largest segment.

- 2) Increasing number of second-time buyers. Increase in sales of high-end cars.
 - 3) Volatile growth for new cars will continue.
 - 4) Consumers' preferences will vary between different regions.
- (Wang, Liao & Hein 2013, 1.)

Two most important trends that will drive China's car market are increasing preference to buy big and expensive cars. (Wang, Liao & Hein 2013, 4.)

Also significance of smaller cities will become greater and their share of car sales will increase. From 2002 to 2011 tier three and three four cities counted 40 percent of total new car sales in China and McKinsey estimates that by 2020 this number will be 60 percent and growth rate of new car sales will be around 10 percent annually in tier three and four cities from 2011 to 2020. (Wang, Liao & Hein 2013, 7.)

300 cities in China will have consumers that are able to purchase luxury car by 2020. Currently the number of cities where people are affording to buy luxury cars is around 100. (Sha, Huang & Gabardi 2013, 5 & 13.)

This vast potential and fast growth has caused car makers to shift their focus more on China. For example BMW has estimated that in 2013 China will take USA's position as BMW's largest top national market. Karsten Engel, head of BMW's business in China has said that "Strong growth in future will come from the smaller cities, and the strong growth will also come especially from the western region... there are 100 cities with more than a million inhabitants in China with no premium car dealers at all, so this shows the huge potential we're having in this country." Nielsen's findings also confirm Engel's argument. Nielsen estimates that between July 2013 and June 2014 almost 70 percent of Chinese buyers come from outside of big cities. (BMW Sees China... 2013.)

China's car market has developed hugely in very short time and there is still space for latecomers although markets in 1st tier cities are maturing. Thus focus is shifting more on smaller cities. However since income levels are much higher in 1st tier cities, and in East Coast generally, it is understandable that there are more consumers who are

able to buy luxury cars. One thing that is remarkable in China's car markets is that profit made from selling imported luxury cars in China is 30 percent higher than the global average. (BMW Denied in... 2013)

5.3 Sales volume of luxury cars in China

According to McKinsey & Co in 2012 the number of luxury cars sold in China was 1.25 million. It is estimated that in 2016 the corresponding number would be 2.25 million cars and 3 million cars by 2020. This would mean that China will surpass USA in luxury car sales in 2016 and by 2020 China's luxury car sales will be equal to luxury car sales in Western Europe. (China Luxury Car... 2013.)

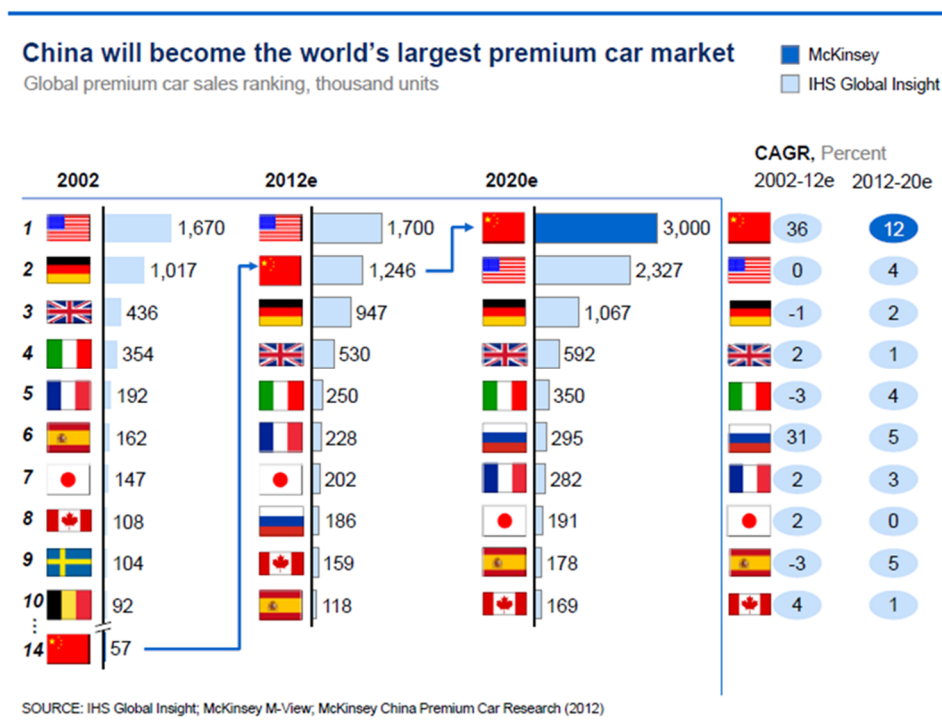


Figure 7. Estimated development of China's premium car sales (Sha, Huang & Gabardi 2013, 4.)

Year 2012 sales of 1.25 million cars makes China the second largest luxury car market in the world. The growth in sales volume in China has been fast and in the past decade there have been 36 percent growth annually in luxury cars. At the same time total passenger-car sales have been growing 26 percent annually. In upcoming years it is

estimated that luxury car sales will grow 12 percent annually, in overall market the growth is estimated to be 8 percent annually. (China Luxury Car... 2013; Ren 2013.)

German producers hold very strong position in China's luxury car market with their 80 percent share of sales while rest 20 percent is shared between Japanese, other European and American producers. (Sha, Huang & Gabardi 2013, 5.)

In 2012 Volkswagen's Audi delivered 407,738 cars in China and thus being the best-selling premium brand in the country. BMW delivered 313,638 and Daimler's Mercedes-Benz 207,099 cars. For example Rolls-Royce, one of the most famous high-end luxury car brands, owned by BMW, sold in year 2012 totally 998 cars in China (globally Rolls-Royce sold 3,575 cars in 2012). (Fickling 2013; Ma & Hagiwara 2013.)

In 2013 BMW sold around 365,000 cars and in January 2014 BMW sold 20 percent more than what they did in January 2013. This is quite good example what kind of development can be talked when talking about China's markets. (Bell, personal communication on 8.3.2014.)

Major factor to big sales volumes for these three German luxury carmakers is that they all have production in China because that allows them to avoid tariffs. Their local production has quadrupled in the last five years and currently their share of China's premium car markets is around 75 percent. (Ma & Hagiwara 2013.)

In March 11th 2014 Audi announced that in 2014 Audi's deliveries in China's markets will exceed 500,000 vehicles for the first time. Audi's dealership expansion is also rapid and in 2014 Audi aims to expand its dealerships up to 500 from current 340. This means that new Audi dealerships are opened every week in China. (Rauwald 2014.)

Lexus is the fourth in the premium car sales in China, but it sold significantly less than German car makers in top three. Despite that Lexus sales in China rose 16 percent in 2012, it sold "only" 60,636 cars. Lexus does not have its own production in China. Lexus parent company Toyota Motor Corporation, which has five factories in China producing Toyotas, has stated there are no plans to start production of Lexus in China.

Nissan's premium car division Infiniti's attitude towards China's markets is quite opposite to Toyota's approach. Currently Infiniti sell only around 20 percent what Lexus sells, but Infiniti's president Johan de Nysschen has said that "China is top priority". Infiniti has also moved its headquarters from Japan to Hong Kong in order to be closer to China and in 2014 Infiniti will start production in Hubei. (Ma & Hagiwara 2013.)

Daimler, maker of Mercedes-Benz, is also heavily investing on China and strives to improve sells numbers in Chinese market as Daimler is aiming to become bestselling luxury car maker in the world by 2020. In this goal China has crucial part since 2015 China will be Daimler's biggest market. Daimler plans to invest 2 billion euros for new factory, engine plant and other production facilities in China. These steps would enable Daimler to produce as much as 200,000 vehicles per year. (Daimler to Invest... 2013.)

Honda's premium brand Acura, which sold in 2012 less than 3,000 cars, has also announced in 2013 that it will start to produce SUVs in China within three years. (Ma & Hagiwara 2013.)

Additionally to sheer size of markets, China is also very tempting to luxury car sellers since according to McKinsey & Co., 111 large cities in China do not have luxury car dealerships. This means that there is still space for latecomers and markets have not yet saturated, but competition is getting tougher. Value-added services are also something that is meaning more to Chinese consumers than before. (China Luxury Car... 2013; Ren 2013; Sha, Huang, & Gabardi 2013, 5.)

In 2012 luxury car sales comprised 9 percent of China passenger car sales, remarkably higher than in South Korea (6 percent) and Japan (4 percent). (Sha, Huang & Gabardi 2013, 4.)

5.4 Factors that can effect on sales of luxury cars in China

In big cities like Beijing, Guangzhou and Shanghai there are different kind of methods to control the number of cars on the roads. In Shanghai, the city has organized auctions

for license plates which has created sometimes quite bizarre situation where getting a plate is more expensive than buying a car. In Beijing, the city has a monthly lottery on who gets license plate. In total Beijing has limitation of 240 000 new cars per year. Also city of Guangzhou is capping licenses. Reasons to this kind of capping are constant traffic jams and poor air quality. (Webpage of Helsingin Sanomat 2013; webpage of The Hindu 2013; webpage of Telegraph 2013, Nissan-Beijing Traffic... 2013.)

Also Zhejiang's province which is located in eastern China is planning to limit the number of new cars because of traffic jams. Plan includes limiting the number of new license plates, increase in parking charges and better public transportation. (China's Zhejiang Province... 2013)

Traffic jams and pollution are issues in most of China's major cities and thus it is likely that more major cities will also limit the number of new cars in the future which will effect on volume of car sales in long term. According to findings of Asian Development Bank seven of world's ten most polluted cities are located in China. (Nissan-Beijing Traffic... 2013.)

Limitations on license plates can possibly effect on sales of luxury cars because what is the point of buying a car if you are not able to drive it? However the people who are buying luxury cars are people with money obviously, and because corruption is wide spread in Chinese society it is very unlikely that luxury car buyers would not be able to get license plates in one way or another.

Government's campaigns can also effect on the demand of luxury cars in China. Campaign, started by Xi Jinping, which targets to curb extravagant spending of officials and SOEs caused that prices of imported cars fell 3.4 percent in April 2013 compared to April 2012. Corresponding number of cars made in China was 0.2 percent increase in prices. Imported cars usually fell in the category of luxury cars since they have 25 percent import tax. Result of this kind of campaign is that demand for luxury items such as cars comes from private buyers. China's officials and SOEs are well-known for their wasteful spending habits so their significance to luxury markets is not small. Reason to this campaign is government's worry about its public image. (Luxury Car Prices... 2013.)

Having production in China is attractive option for foreign car makers due taxation reasons, but this option is also dependable on government's attitude. For example BMW has faced some obstacles in expanding its production in China and its plans to expand factory in China was declined by government in July 2013. However it is still too early to say in what direction government's policies towards foreign car makers will develop in long-term, but this kind of decision cast some shadow over the future of car market in China. (BMW Denied in... 2013.)

In January 2014 car sales rose less than what was expected. Multipurpose vehicles and SUVs were estimated to be delivered 1.88 million vehicles, but actually delivery number was "only" 1.8 million, so sales grew only 7 percent. It is likely that one major factor for slowing down is government's anti-pollution campaigns and attempts to curb extravagant lifestyle. However slowing down did not come as a total surprise and for example in December China's industry ministry warned that car sales may not grow in 2014 as much as in 2013 because of rising number of Chinese cities will cap the number of new cars. Even though the growth is slowing down still the overall deliveries of cars in China will rise around 10 percent in 2014. In 2013 corresponding number was 14 percent. (China Auto Brands... 2014.)

6 CONSUMER BEHAVIOR TOWARDS LUXURY CARS

6.1 Consumer buying process and factors that effect on that

Consumer buying process can be divided into five different phases:

- 1) *Problem/Need Recognition*. This is the most important phase in consumer's buying process and prerequisite for purchase. The need can be created by internal stimuli (for example hunger) or external stimuli (for example advertisements or word of mouth).
- 2) *Information Search*. After a problem or a need has come to consumer's attention, consumer tries to find best solution to this problem or need.

- 3) *Evaluation of Alternatives*. In this phase customer evaluates different options. Customer's attitude and involvement play big role on this. If customer's attitude is positive and involvement is high consumer will evaluate many different options.
- 4) *Purchase Decision*. After consumer has made decision it still can be "disrupted" by two factors which are negative feedback from other customers and the level of motivation to accept the feedback. If, for example a close friend, who has bought a product, gives a negative feedback to consumer about the product, then decision can be "disrupted" and consumer change preference. Also sudden, unforeseen things like losing a job or other life changes can "disrupt" purchase decision.
- 5) *Post-Purchase Behavior*. After purchase consumers are satisfied or dissatisfied with the product. If consumer is dissatisfied that will effect on *Information Search* and *Evaluation of Alternatives* phases. If consumer is satisfied this can create brand loyalty and *Information Search* and *Evaluation of Alternatives* phases can even disappear. Consumer's satisfaction also effects on what kind of feedback consumer will give to other consumers. Feedback is often convey via social media or word of mouth.

(Johnston 2013.)

Factors that effect on consumer's buying behavior can be classified to four main groups:

- 1) Cultural factors (culture, sub-culture and social class)
- 2) Social factors (reference groups, family, role and status)
- 3) Personal factors (age and life situation, occupation, income, lifestyle and personality)
- 4) Psychological factors (motivation, perception, learning, beliefs and attitudes)

(Bhasin 2010.)

6.2 Reasons why Chinese buy luxury car

It is notable that markets and consumer behavior are changing in China. Traditionally luxury car has been bought in China to show wealth and status in the society, but younger generations who are purchasing luxury cars has nowadays more sophisticated taste and their buying motives differ from older generations. (Sha, Huang & Gabardi 2013, 4.)

First generation of middle class were looking for status and opportunities to show-off, but nowadays “self-indulgence”, “car as my ‘business card’ for credibility”, “attracted by sophisticated functions and innovative designs”, “the car as a source of fun in life”, and “demanding excellent service” are also reasons. According to McKinsey “Cars are seen as an important personal statement not only to display status and gain social recognition, but also to self-indulge and act as a source of fun in life”. What is also important is third-party approval. (Doctoroff 2005, 73; Ren 2013; Sha, Huang & Gabardi 2013, 6.)

Buying car is considered as very significant in China and it is one of top three family spending priorities along buying an apartment and paying children’s education. In China owning a car is also something that has significance for marriage. Owning a house is “must”, but large portion of women also consider owning a car as pre-requisite for marriage. (Ren 2013.)

What is rather interesting in China is that only 15 percent of Chinese consumers use loan when buying a car, rest 85 percent of consumers pay at once their cars. Also second-hand car market is almost non-existent in China and second-hand car has significantly lower “face” value. (Xu 2013.)

6.3 Chinese consumer who buys luxury car

Chinese luxury car consumers can be divided into five different segments. Those segments are:

- 1) Brand Enthusiast (27%), main considerations: brand image, country of origin and performance.
 - 2) Technology Upgrader (24%), main considerations: ride and handle, telematics and configuration.
 - 3) Value Seeker (18%), main considerations: fuel consumption, maintenance cost and price.
 - 4) Business Leaders (18%), main considerations: safety, quality and comfort.
 - 5) Image Pursuer (13%), main considerations: design, brand image and product features.
- (Nielsen China 2012.)

80 percent of Chinese luxury car owners have annual disposable household income of more than 200,000 RMB. What is also notable is that in China luxury car owners are usually younger than their counterparts in Western countries. (Sha, Huang & Gabardi 2013, 5.)

Households with annual disposable incomes are 106,000-229,000 RMB are labeled as “new mainstream” by McKinsey and they are considered as “entry-level” potential buyers for premium cars. Currently roughly 80% of China’s urban population is considered as “mass consumers” which means that their annual household income is between 37,000 RMB and 106,000 RMB. It is estimated that in next decade many people from this bracket will shift to “new mainstream consumers” which means that their annual household income is between 106,000 RMB and 229,000 RMB. When more people enter into this “new mainstream” category it will become affordable for them to spend more money on luxury items. “New mainstream” category will comprise almost 400 million people by year 2020. For “new mainstream” style, brand and exterior are more important than what they are for wealthier consumers who focus more on technology and technical performance. (Atsmon, Jin, Li & Magni 2012, 16; Sha, Huang & Gabardi 2013, 6.)

Chinese luxury car buyers are optimistic and have confidence on their future which makes them willing to spend more money on more expensive items. (Sha, Huang & Gabardi 2013, 6.)

Typical Chinese consumer is likely to believe that he/she is getting high quality if the price tag is high and thus are willing to pay more to get good car. (Sha, Huang & Gabardi 2013, 7.)

Chinese consumers are more influenced by word of mouth and opinions of their friends and family than for example European consumers. Also peer pressure effects on buying decision (Sha, Huang & Gabardi 2013, 9-10.)

6.4 Diversity of preferences

As China is getting closer to developed countries Chinese consumers are also getting more sophisticated about cars and consumers are developing notable preferences. It is predicted that by 2020 majority of Chinese consumers are strongly affected by factors like how the product reflects their sense of individuality. (Atsmon, Jin, Li & Magni 2012, 18; Wang, Liao & Hein 2013, 10.)

These preferences can be seen also in buying preferences of other products. In Hangzhou consumers' decision when buying chocolate is based on desire to get preferred brand, but in Shanghai consumers tend to buy chocolate which they believe to give them best value for the price. (Li, Cheng & Woetzel 2012, 11.)

In differences between Chinese consumers McKinsey found out that consumers in Hangzhou put much more value on external styling than consumers in Shanghai to whom price was more important factor than external styling. McKinsey also found out that in Shenzhen consumers are more open to new brands while in Guangzhou many consumers want to buy only well-known brands. (Wang, Liao & Hein 2013, 8.)

Male and female buyers also have differences on what they value in car. Female consumers appreciate, exterior styling, safety and comfort. Female consumers are also more interested on smaller car. Male consumers in turn appreciate powertrain technology, brands and big size. (Sha, Huang & Gabardi 2013, 7 & 12.)

In cities where consumers have had longer exposure for luxury cars, consumers are more sophisticated and have more knowledge about cars. In cities where exposure is lower consumers rely more on strong brand image and good reputation rather than their own experiences and knowledge. Also in cities with lower exposure consumers are more impulsive. (Sha, Huang & Gabardi 2013, 11.)

McKinsey's survey found out that 26 percent of consumers who participated in the survey were interested on green technology and for example in 2012 in survey 44 percent of Chinese respondents said they were willing to pay more for "products that are good for the environment" when considering their grocery purchases. Also it seems that even though Chinese consumers' demand for cars with big size is growing, generally preferences of consumers are getting more diversified which means that it is harder to create model or brand that can "catch-all". So what producers must do is to market cars that are carefully planned for target segment. (Atsmon, Jin, Li & Magni 2012, 13; Sha, Huang & Gabardi 2013, 11.)

What is interesting in China's car markets is that sales volumes are correlated to price differently than what they correlate in USA and Germany. In China Mercedes' sales volume is highest in their most expensive class and lowest in cheapest class. In USA and Germany cheapest class sells the best and most expensive class sells the least. (Dunne & Dunne 2011, 157.)

6.5 How to market luxury cars to Chinese?

6.5.1 Marketing strategies

McKinsey's report came to conclusion that car makers that are "seeking to win in China will need to sharpen their insight into consumer behavior, and fine-tune their skills in product development, sales, and marketing." (Sha, Huang & Gabardi 2013, 13.)

In China one-size-fits-all is not working because of difference between consumers (regional differences, rural/urban, gender, income etc.) and thus in-depth knowledge must

be acquired if consumers are wanted to reach the best possible way. (Li, Cheng & Woetzel 2012, 11.)

China's "new mainstream" consumers, which refers to upper-middle-class consumers, are very important for luxury car brands and winning these consumers is crucial to success.

Ways to win this "new mainstream" are:

- 1) *Aspirational brands*. Creating a positive emotional connection between product and consumer. Since Chinese are highly influenced by other people's opinions it is important to create word-of-mouth (for example on internet).
- 2) *Dual strategies*. China has big differences regionally in terms of wealth. Thus it is advisable to have dual strategy where more expensive products have stronger presence in wealthier parts of China and more affordable products have more dominating presence in less wealthier parts of China.
- 3) *Disciplined transition timing*. While regions develop and become wealthier it is crucial to recognize when to swift region's focus on more expensive products. Essence of this is gradually swift consumers to prefer upgraded products while consumers are getting wealthier.
- 4) *State-of-the-Art marketing*. Balancing between mass of consumers, but still giving sense of individuality to consumers. Consumers desire individuality and that their chosen product represents their individuality. The trick is to reach large amount of consumers, but at the same time make them believe that they are getting something individual and not a bulk product.

(Magni & Poh 2013.)

In marketing companies should use localized material and not to rely on marketing material that are used in other countries. Also it is advisable to focus on for example social media on marketing. Getting people to talk about product and positive word of

mouth is important since Chinese tend to seek other people's acceptance and are active to discuss about products and their experiences online. (Lockne 2012.)

6.5.2 Branding

When choosing a brand consumers are not only choosing the physical product, but also the image of the brand. In country like China where third-party approval is highly sought after, branding is even more important.

For example Volvo has not been doing too well in China and the reason for this is its lack of brand identity. Volvo does not stand out from other car makers and its prices are higher than its competitors'. Also Volvo Chinese name (*wo'erwo*) sounds awkward to Chinese speakers. However Volvo's weak brand image in China can in fact help Volvo's sales since currently it is "politically incorrect" to have high profile luxury car. (Volvo Is China... 2013.)

What is notable is that cars made in China are actually sometimes branded as foreign cars because that enables higher sales volume since Chinese cars are considered inferior. For example Buick launched 2003 Excelle which was branded as American car even though it was basically just Daewoo. After launch Excelle sold well and its low-end version and more expensive version were both success. It is safe to say that if Excelle would have branded as Korean car what it was mainly, the sales volumes would have been smaller. (Dunne & Dunne 2011, 154-156.)

Price tag of a car is a double-edged sword. Providing cars that are more reasonable priced can dilute brand image and make consumers puzzled what the brand stands for. Buick, for example, gained profits and increased its sales volume by getting cheaper cars on markets, but in the end Buick damaged its brand images since consumers were not able to define was Buick low-end or high-end car. Also wealthy consumers are not too excited about driving the same car brand as middle-class. BMW chose the other direction and decided to stay with its premium brand-image and BMW is currently selling well in China. (Rein 2007.)

Being a foreign brand is seen as superior compared to Chinese brand and there is certain attraction for brands that comes from Italy, France, Switzerland and USA. Bizarre in this belief of superiority of foreign brands is that it is not uncommon that the product Chinese consumers consider as foreign is in fact made in China. For example Apple's products (like iPhones) are made in China but they are seen as superior and must have items for a successful person. Being a foreign brand is seen as a guarantee for high quality and since foreign labeled brands are usually more expensive than their Chinese counterparts, it also affirms this view. Younger and more affluent consumers are most likely to prefer foreign brands. (Atsmon, Jin, Li & Magni 2012, 7; Chadha & Husband 2006, 172.)

Foreign brands also have strong traditions and thus they are seen more reliable than Chinese ones that are lacking traditions. Many Chinese consumers do not even believe that Chinese manufacturers could make same quality products as foreign manufacturers. So when marketing a brand (holds true also on luxury brands) it is essential not downplay foreignness of a brand. Being Western brand is desirable and this can be seen in many ways in China, for example it is hard to imagine that consumers in Western countries would wait outside in queue for a long time just to eat at Pizza Hut. Also sipping pricey coffee (at least when compared to local coffee places) at Starbucks is seen as trendy because Starbucks is well-known Western brand. (Chadha & Husband 2006, 172-173.)

Even though Chinese products are seen inferior (however items like silk or tea are exceptions) still just being a foreign brand is not enough and as Chinese consumers are getting more aware and the quality of Chinese products is rising, it is most likely that in the future being a foreign brand will lose some of its charm. (Lockne 2012.)

Political reasons can also effect on Chinese consumers' attitudes, for example customer satisfaction of Japanese brands in China dropped as a consequence of territorial disputes. These disputes over Diaoyu (Senkaku) islands also caused decrease in sales to Japanese car makers Toyota, Nissan and Honda in the first quarter of 2013. (China's March Passenger... 2013; Japanese Auto Brands... 2013)

7 RESEARCH FINDINGS

For empirical part totally 3 persons were interviewed. All interviewees currently work with famous car companies in China. The purpose of these interviews were to gain more insightful knowledge about the topic of this thesis and to answer to the research questions. Interviews were based on the interview questions (see Appendix 1), but further questions were also asked based on interviewees' answers. Information that was gained reflects interviewees' own opinions and thoughts. Thus answers do not reflect policies of the companies which interviewees work for.

Persons who were interviewed are Costa Peter Delis, Steve Bell and Andy Banks. Costa Peter Delis works as West Region Senior Sales Manager at Jaguar Land Rover China. Mr. Delis comes from USA and has experience from China multiple years and he is based in Shanghai. Steve Bell is from England and he currently works for BMW China as Team Manager Sales Channel Development. Mr. Bell is based in Beijing. Previously Mr. Bell has worked with brands like Audi and Citroen. Andy Banks comes also from England and is currently based in Beijing. Mr. Banks works for BMW China and his current role is Project Manager, Dealer Development. Mr. Banks has experience from working for car brands like Volkswagen, Mercedes-Benz and Audi.

All interviewees agreed that development in China have been explosive in last years in every sense. Sales volumes has been skyrocketing and even though sales number do not anymore increase as many percentages per year as what they did in the past, it is still safe to say that sales volumes will continue to grow in speed that is fast. Mr. Delis also mentioned that sales volumes will continue to grow in 2014 with two-digit number. Overall China's luxury car market's growth is one of the largest growths that is seen. However 1st tier cities are getting matured by now and the future of China's markets lies in the 2nd, 3rd and 4th tier cities. This is in line with information found on theoretical part which also mentioned that many smaller cities (although in China this term is used to cities with population more than million people) do not even have dealerships.

It was also pointed out that it is not only sales volumes that has been explosive but also networking and brand development in China's markets. China is not only important in

sales volume but also the most important in profit volume. Today China is the most important car market according to all interviewees. Interesting is also that accessories like clothes are getting their fair share of growth as well and Mr. Bell mentioned that selling BMW's clothes (like jackets which have car brand's name on them) is extremely profitable in China. This seems to assure that brand image is really crucial for Chinese and that Chinese are willing to pay for expensive clothes because they hold famous car brand's name.

The big problem of the development in China is that it is difficult to hire and retain experienced and talented staff. Job hopping after few months is very common practice in China. Inexperienced sales staff effects on sales and for example many dealerships do not have sales people who would match with standards that are used in Western countries. Also cultural differences are causing difficulties since decisions are made in headquarters which are located far from China so they have sometimes difficulties to understand local markets in China where companies must adapt at least on some level to local markets. Chinese also tend to be short-sighted and look for short-term profit and do not think of long-term profit.

In the future mass market brands will move towards luxury section as China's middle class expands. Even though it is considered that lower end cars shift to higher end cars, it is believed that there will still be a lot of demand for cars which are on lower price range. Interviewees expect that after sales will get increasingly important and one way to win more consumers. For Jaguar Land Rover Mr. Delis expects very significant growth for year 2014 and that they will sell more cars which are small sized. This is rather interesting because other interviewees and information gathered on theoretical part stated that trends are focusing on cars with big size. However Mr. Delis stated that this is trend with Jaguar so it does not necessarily hold true when speaking generally of the whole industry.

Status is the single most important reason for Chinese consumers to purchase luxury car according to all interviewees which was expected result based on findings in theoretical part of this thesis. However this varies somehow geographically and consumer preferences are different in different regions. Things that come to consideration after status are practicality and safety, but still those are far behind status in importance.

Chinese are also willing to pay more to get premium than what consumers in USA or UK, for example, are willing to pay.

When the Chinese go to buy things like car, the status that car can give is the most important thing and brand image is crucial for that. Chinese consumers want to show their ego and get “face”. Having a luxury car is making a statement and being seen is important. One example of how important this is was given during one of the interviews about how Chinese even park on places where it is illegal to park just to make sure that other people could see their car. Luxury car is a way to stand out of the mass and because in Chinese culture individuality is quite much suppressed, buying a luxury car is a way to break from that. Also things like car’s color play role in this, flashier car colors are more common sight in Chinese streets than in many other countries. Other values that Chinese consumers value in car are quality and driving experience.

Taste of Chinese consumers differs from people in Western countries and luxury car models that are not successful in other countries can be very wanted in China. Mr. Banks said that car model range in China is tremendous and many companies do have specific models designed to Chinese markets. Especially long-wheel based cars are in great demand in China.

Some examples of differences between consumers in China who purchase luxury cars is that for example in Shanghai consumer who buys luxury car is affluent, educated and status aware. Consumers in Western China are extremely affluent and status aware and much more impulsive. In Shanghai buyer takes test drive and after that thinks about decision sometime. After this Shanghainese consumer talks to friends and searches information and after that makes decision to buy. In Western China consumers can buy luxury car after having test drive and sometimes consumers decide to buy even before test drive. So as a comparison consumers in Shanghai spend more time to think different aspects but in Western China purchasing decision is more often made on spot. This could somehow reflect the difference in development between regions.

What is together to Chinese buyers who purchase luxury car is that they are younger than consumers who purchase luxury cars in USA and England. Big part of buyers are mid-twenties and late 30s. So the profile of typical Chinese consumer who buys luxury

car is relatively young and wealthy person with strong image consciousness. Interestingly older generations are slightly keener to brands than younger. In general terms Chinese consumers are getting more and more sophisticated. Also younger consumers buy more used cars and are savvier. Overall based on interviewees answers it looks like consumer buying process, presented on theoretical part, in China is somehow “shortened” and in buying process searching information and evaluation of alternatives take much less time in China and decisions are made fast and less factors are considered.

Having a local production in China has its benefits, but it is possible to be successful even without local production, especially this is true to niche players. Jaguar Land Rover has partially localized their marketing and branding strategy but Jaguar Land Rover does not have joint venture in China. However without local production it is not possible to achieve same sales volumes as what Audi, for example, is having. If company does not aim for selling cars in volume like Audi, having no local production is also viable option. Reason for this is taxation. The key for success in luxury segment is brand awareness. Much depends also on China’s government because government is somewhat “pushing” foreign car makers to co-operate with local car brands.

China’s luxury car sector has competition, but there is always space if you know what you want to be and it is very unlikely that Chinese luxury car brands would challenge foreign brands or overtake their dominant position anywhere in near future and that there is generally only low base for consumers who would be interested in Chinese brands in luxury car sector. Even though the competition is not that hard according to interviewees it is too late for brands that do not fit in some specific niche to enter China. However most of big players are already in China.

It is unlikely that Chinese car makers could challenge foreign car makers even if the quality would be the same. The brand image is crucial and it is very unlikely that Chinese car brands could break through in Europe or America and thus make brand more desirable in China. As an advice for foreign brand that would enter to China’s markets Mr. Delis concluded that it is important to decide what you want and act according to that. So brand must decide does it want to be a niche player or mass market.

There are few things that interviewees considered becoming more important in the future. For example online marketing will need more attention. Also it was said that the possibilities of different applications like WeChat are not fully used, but they hold big potential because these applications can really reach consumers, especially in China where consumers are very fond to their smart phones and tablets. Even more significant issue which both Mr. Banks and Mr. Bell brought up was financing. In China financing cars is much less common than in Western countries and financing must develop in China, it is almost necessity for China's markets. Financing allows 4 years younger consumers to buy new car and because of this they will buy their second car by the time where without financing they would buy their first one. Financing allows a lot larger consumer segment to buy luxury cars and thus the number of potential customers is much bigger. Financing brings whole new customer segment to car makers and thus it needs more attention.

8 CONCLUSION

Overall demand in China will definitely grow, but what will be interesting is will consumer's preferences continue to diversify in the future or not, and what kind of stance government will have towards foreign car makers. Foreign car brands definitely have edge over Chinese brands and international brands will continue to dominate over local Chinese brands, but what will be interesting is that how joint-ventures between foreign and Chinese brands will develop since foreign brands are pressured to joint-ventures and having local production (because of taxation) by government. Having joint-ventures with local brands holds somewhat of potential risk since no one knows what will happen in the future. Risk is that foreign brands are somehow "pushed away", however this is fully speculative but it is something that foreign brands should be aware of. Also will local authorities continue their efforts to limit number of cars or not, is something that can hurt sales volume of cars in China. China's political system, which has great differences compared to political systems of Western countries, also enables that very sudden changes are possible.

China is not the simplest market area because of differences inside the country in terms of development. So it could maybe be the best not to consider China just as one big market area. Markets in 1st tier cities are not anymore developing like they used to and focus is shifting to smaller cities. In the future 3rd and 4th cities will be crucial for luxury car brands.

Brand image, status and exclusiveness are very important to Chinese and there is no signs that this would change anywhere in the near future. Buying luxury car is mostly all about making a statement, gaining individuality and differentiate one from other people.

Crucial is what other consumers think and feel. Car that other people think as high quality car and brand that is sought after has at least as much meaning as the real attributes of the car. So just a good product is not enough in Chinese markets, it is also about branding, third-party approval and how consumers see the product.

Environmental awareness is still on quite low level in China, but since environment's devastation is significant issue in China it can be expected that sooner or later bigger masses of Chinese will wake up in their country's environment's grim reality and start to be more aware about their living environment. This could cause that in the long term sales of SUVs would ultimately decline and cars that are more environment friendly would increase their sales. However it will still take a long time before environmental awareness of Chinese consumers is close to awareness that appears in many Western countries.

Based on research finding thing that would need further study is effects of financing cars which is not booming currently in China, but will get bigger. Financing can open a whole new consumer segment for car makers.

All in all China hold enormous potential to car makers, but it takes a lot of effort and multi-dimensional strategy to win hearts and minds of Chinese, but whoever success in China can expect also great profits.

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APPENDIX 1**BACKGROUND INFORMATION**

- 1) Name:
- 2) Company's name:
- 3) Position and responsibilities:
- 4) How many years you have worked in luxury car industry:

QUESTIONS

- 1) How China's luxury car industry has developed in last 5 years and how you see the current situation?
- 2) In what direction you would see that China's luxury car markets will develop in the future? Upcoming trends etc.
- 3) What are the biggest motivators for Chinese to buy luxury car?
- 4) What things foreign luxury car brands have to do differently in China's markets compared to what they do in Europe or USA? For example in terms of marketing and branding
- 5) Describe briefly a typical Chinese consumer who purchase luxury car
- 6) How much there is currently competition in China's luxury car sector? Is there still space for new brands to come in?
- 7) If a foreign luxury car brand would consider entering China's markets what kind of advice you would give them?