Blog

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IT companies take centre stage in China's NEV market

As we move into the second half of 2021, China's New Energy Vehicle (NEV) market remains on a robust upward trend. This is flattered, to some extent, by the pandemic-related low base in the first half of 2020, as well as the delayed launch of several new models from last year to the early part of this year. Further support has come from a raft of supportive measures for the NEV sector at both the central and local government levels.

Historically, the Chinese NEV market has been split into two main groups: traditional OEMs and new emerging brands. This year, however, we have seen the arrival of a new set of players in the guise of internet companies, such as Baidu, Huawei and Xiaomi, among others. Unlike many of their predecessors (NIO, Xpeng, Li Xiang), these entities require no financial assistance to enter the fray. On the other hand, they have no background or experience in vehicle manufacturing, unlike brands like IM, Lantu and ORA, all of which were created by existing automakers.

So, what has prompted these internet giants to step onto the automotive stage?

Software has, in the past, been defined by hardware. But as the automotive industry evolves, software has started to take over from hardware and will become increasingly important in the future. And while these internet giants are undoubtedly at an advantage in this respect, the type of software required to succeed in the automotive industry differs significantly from the technology that drives the IT industry.

To cement their position in China's cutthroat NEV market, these IT giants will have to foster a new wave of growth, or risk falling by the wayside. When coupled with the impact of the pandemic, this pressure has led to a shift in focus from quantity to quality … and the timing could not be better.

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Vehicles will become the largest source of mobile IT terminals in the future, offering the functionality of both a computer and a smartphone, thus providing huge business opportunities. As the number of users increases, potential revenues could defy all expectations. Taking Xiaomi as an example, its total revenue last year amounted to CNY249.5 billion, with its smartphone business accounting for CNY152.2 billion of that total. And as Xiaomi's net margin on the hardware side is below 5%, most of its profit margin is derived from its IT services.

It is important to remember that China's NEV sector is still in its infancy and, as an incremental market, it is heavily reliant on opportunity. So, these IT players are essentially betting on the NEV market becoming increasingly dependent on users in the future. Data safety, for example, is always a hot topic when a new intelligent connected vehicle hits the market.

When these IT companies decide to enter the automotive market, one of the first things that they look for is a suitable pool of talent to compensate for their lack of knowhow in vehicle manufacturing. This has triggered a talent war within the traditional automotive industry, particularly as these new players typically offer far higher salaries and incentives.

Traditional OEMs have invested a great deal of time and money in training and nurturing their staff, so losing part of their talent pool comes as a serious blow. And if we factor in the high cost of transitioning from traditional to electrified/intelligent connected vehicles, then the loss of talent only adds insult to injury.