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Automobili Pininfarina

Business plan for entering the Chinese automobile market

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## **Glossary**

BEV - Battery Electric Vehicle

CAGR - Compound Annual Growth Rate

EV - Electric vehicle

ICE - Internal Combustion Engine

NEV - New Energy Vehicle

SUV - Sport Utility Vehicle

WLTP - Worldwide harmonized Light vehicles Test Procedure

WTO - World Trade Organization

## **1. Summary**

### **1.1. English**

Automobili Pininfarina is a start-up in the luxury electric vehicle industry. The company was founded in 2018 and delivered its first fully electric hypercar, the Battista, to its first customer in October 2022. The Battista produces 1900 horsepower, accelerates 0-100 km/h faster than a Formula 1 car, and is priced at about 2 million Euros. The production of this handmade vehicle will be limited to 150 cars in total. The company is planning to use the international recognition of this car to build its brand. Other vehicles at a lower price point with higher production quantities will be introduced in 2023 under Battista's "halo". Automobili Pininfarina plans to expand to the Chinese market as China is home to the biggest car market and the biggest luxury market worldwide. The aim of this work is to develop a business plan for Automobili Pininfarina to enter the Chinese market.

### **1.2. Portuguese**

Automobili Pininfarina é uma start-up no segmento de veículos elétricos de luxo. A empresa foi fundada em 2018 e desenvolveu o seu primeiro hiperdesportivo totalmente elétrico, Pininfarina Battista, o qual foi vendido pela primeira vez em outubro de 2022. Este veículo elétrico apresenta 1900 cavalos de potência, consegue atingir uma velocidade de 100 km/h mais rapidamente do que um carro da fórmula 1 e tem um preço de aproximadamente 2 milhões de euros. Este modelo, feito à mão, será uma edição limitada a 150 unidades. A empresa espera obter uma reputação internacional com a produção deste modelo de forma a desenvolver a sua marca. Outros veículos, com um preço inferior, e com um nível superior de produção serão introduzidos em 2022 com o modelo "Battista's halo"

Automobili Pininfarina pretende expandir-se para o mercado chinês tendo em conta que o país é o maior mercado de carros e de veículos de luxo a nível mundial. O objetivo deste projeto é o desenvolvimento de um plano de negócios de forma a que a empresa Automobili Pininfarina possa penetrar no mercado chinês.



## **2. Executive Summary**

The aim of this thesis is to produce a business plan for Automobili Pininfarina's project to enter the Chinese market. Automobili Pininfarina is a start-up in the automobile industry, which produces fully electric high-end luxury cars.

The Italian design company Pininfarina SpA is known in the car industry for designing many iconic cars like the Ferrari Testarossa. The Indian Mahindra Group bought the Pininfarina SpA and founded Automobili Pininfarina in 2018 to build an electric supercar. The headquarters is based in Munich, Germany and the production in Turin, Italy. The company's first car, the Battista, is priced at about 2'000'000 Euros and delivers performance statistics close to a Formular 1 car. A fully electric luxury sport utility vehicle (SUV) at a price of about 230'000 Euros will follow after the brand has gained recognition. The market research has shown that the demand for luxury vehicles and electric vehicles (EVs) in China is high and projected to grow in the coming years. Automaker's profits are higher in the luxury segment than in the mass car segment. The EV market has seen many new entrants in the past year, yet there are very few direct competitors offering fully electric luxury vehicles. Therefore, entering the Chinese market will provide the company with an opportunity to increase its sales. This thesis examines different entry modes and suggests that the most suitable entry mode is a joint venture with a local partner as this is in line with the company's goal of establishing a long-term presence in the Chinese market and mitigates risks of doing business in an unknown market. Especially since it is offering a luxury product, the company needs to build a strong brand presence in China and should use digital channels as well as dealerships and events to do so. The costly development of the vehicles has already been done by the German entity Automobili Pininfarina. The Chinese entity will buy the vehicles from them and therefore will not have any production costs. Thus, as the financial analysis shows, the Chinese entity should be profitable within its first year of operations, making it a worthwhile undertaking.

## **3. Exposition of the context of the issue**

### **3.1. Automobili Pininfarina – The Company**

#### **3.1.1. History of Pininfarina**

Battista "Pinin" Farina was born in 1893 in Cortanze, Italy. He was called "Pinin" (the younger/smaller brother), because he was the 10th of 11 children and later because of his height of 1.52 meters. He founded "Carrozzeria Pinin Farina", a company for designing and building car bodies in 1930. The firm's name was changed to "Pininfarina" in 1961 when the president of Italy officially allowed Battista "Pinin" Farina to change his last name to "Pininfarina" (Pininfarina, n.d.).

Since then, the car-design company Pininfarina has influenced the history of car design and defined the appearance of many of the most famous sports cars. Alfa Romeo, Lancia, Maserati, and most of all Ferrari had many of their cars designed by Pininfarina (Fromm, 2012). Between 1930 and 2017 all but two road-going Ferrari models were designed by Pinin and his successors.

Figure 3.1: Sergio Pininfarina, son of Battista Pininfarina in front of a Ferrari Testarossa designed by the car design company Pininfarina



Source: Straub, 2012.

### 3.1.2. Founding of the car company - Automobili Pininfarina

In 2008, the design company Pininfarina SpA was operating under the third generation of leadership and was facing difficulties due to its debts after three consecutive years of losses in the balance sheet. Car producers increasingly preferred doing the design of their cars in-house and as a result, Pininfarina lost important customers. In 2015, the Mahindra Group, owner of the Indian car maker Mahindra & Mahindra stepped in. The Mahindra Group bought 76% of the shares of Pininfarina SpA from the holding company Pincar for 25.3 million Euros and gave guarantees worth 114.5 million Euros to creditors (Handelsblatt, 2015). The Mahindra Group is a conglomerate employing over 240.000 people with a revenue of about 20 billion USD in 2019 (Mahindra, 2020, p. 24).

So far, the design company Pininfarina had never built a car under their own name, but on February 5<sup>th</sup>, 2018 “**Automobili Pininfarina GmbH**” was founded in Munich, Germany with

the purpose of building a fully electric supercar (Pininfarina, n.d.b.). Automobili Pininfarina now combines the design know-how and history of Pininfarina and the financial resources of Mahindra Group. It also benefits from the brand name Pininfarina, which is known to automobile enthusiasts around the world because of its iconic car designs.

## 4. Literature Review

### 4.1. Business Plan

A business plan is important for a company entering a new market, such as Automobili Pininfarina entering the Chinese market since it aids in defining the company's strategy, locating the resources required to carry it out, and creating a plan for attaining its objectives. A business plan also helps the company to explain its vision and objectives to customers, employees, and investors.

According to Abrams & Kleiner (2003), the following components should typically be present in a business plan:

1. **Summary:** In this paragraph the main ideas of the business plan are briefly summarized.
2. **Market analysis:** This section of the business plan deals with the market in which the company will enter. The market's characteristics, benefits, risks, and potential customers are analyzed.
3. **Product description:** This section provides a detailed description of the product or service that the company will offer, including its features and benefits.
4. **Marketing and sales strategy:** This section outlines the company's marketing and sales strategy, target market segment, pricing, as well as how it will market and sell its product to clients.
5. **Operations plan:** This section outlines the company's manufacturing and delivery process, including its supply chain and logistics processes.
6. **Management team:** The management team of the company should be introduced along with how they will contribute to the success of the organization.
7. **Financial plan:** A financial plan, including an anticipated cash flow statement are provided in this part of the business plan.

Overall, a business plan is an important tool for a company entering a new market since it helps in the definition of the company's strategy, the identification of the resources required to carry out that strategy, and the creation of a plan for attaining its objective of successfully selling products in the new market.

## **4.2. Market Entry Modes**

One of the most crucial decisions to make when entering a new market is the choice of the suitable market entry mode. There are a variety of modes available, which will be introduced in the following.

### **4.2.1. Exporting**

The way to enter an overseas market that generally demands the least resources is through exporting. This can be done either directly or indirectly.

#### **4.2.1.1. Direct Exporting**

Direct exporting involves a company selling goods directly to a customer in an overseas market (Roy, 2017). The customer can be a consumer, a wholesaler, a distributor, a retailer, or a governmental entity. This method of market entry has the advantage that the exporting company has full control over its production processes. Thereby, it maintains full control over the quality of the products as it is still producing at the factories at home and then ships them to the foreign market. The impact of potential political instability in the overseas market is very limited as the company has not invested in local sites. A withdrawal from the market can be done relatively cheaply and easily. Furthermore, direct exporting can be a good first step into a new market in order to gather information on the market without investing a lot of resources. Disadvantages of direct exporting are the need to invest into market research as well as marketing cost in order to bring attention to the unknown product in the foreign market (KVK, 2020). A lack of experience with the export business can lead to costly mistakes, especially when selling in a country that has regulations one is not familiar with. The domestic currency standing strong against the foreign currency can also make one's products expensive in the foreign market. The domestic currency appreciating is a further risk. Direct exporting can be very successful with a market, which is readily accessible and where regulations and consumers' needs are similar to one's home market. If the foreign market has different business customs, regulations and the company is inexperienced in international trade, direct exporting as a way of entering a new market can be difficult and risky.

To summarize, if markets are chosen carefully, direct exporting represents an opportunity for high profits. If the exporter is interested in long-term growth in the foreign market, it can be a good first step, because it enables the exporter to gain first knowledge of the market and develop distribution channels, whilst also maintaining control over production and position of the product.

#### 4.2.1.2. Indirect Exporting

Indirect exporting takes place when a company sells its goods to an intermediary in the home country, which then exports the goods to a foreign market (Roy, 2017). The intermediary is responsible for shipping, customs paperwork, and marketing the goods in the foreign market. Indirect exporting is the cheapest way of selling products in a foreign market, as the company only ships its goods within its home market. No experience in exporting goods or marketing the goods in the foreign market is needed. The goods are sold and shipped to an entity within one's home market and the intermediary takes care of everything from there on.

As the indirect exporter does not invest in infrastructure or knowledge of the foreign market it takes on no financial risk. However, the company has no control over how the goods are marketed abroad. The risk of one's brand being damaged or represented differently from how the company would like it to be presented is high.

In the trade-off between cost, risk, and control indirect exporting is low on cost and risk, but unfortunately also on control. The company that exports indirectly gives up all control over how the goods are shipped, presented, priced, and sold. It also may not gather any further information on the foreign market and its customers as it never gets in touch with it. Since learning about the foreign market is a good basis for further steps to enter it, this strategy might not be ideal with further ambitions of expanding abroad. The company is also not able to offer after-sales and value-added services, which means giving up further chances on revenue and risking one's image abroad.

Indirect exporting is a strategy, which is unsuitable for companies that offer a service instead of a product. It is a strategy, which is often chosen by smaller and younger companies, which cannot or do not want to take on a lot of cost and risk.

#### 4.2.2. Licensing & Franchising

##### 4.2.2.1. Licensing

Glowik (2016, pp. 164-165) describes licensing as a business relationship where a licensor, who is the owner of a knowledge-based asset, sells the right to use this intangible asset for a specified objective to other organizations, the so-called licensees. The licensor is required to have registered a patent or a trademark, thus protecting him from his intellectual property being illegally used.

When licensing is being used as an international entry mode, the licensor gives the licensee in the foreign market the right to use the intellectual property for a specific objective for a specific period of time, which is agreed upon by both the licensor and the licensee. Thus, the licensor transfers the ownership of the knowledge, without giving it up, in exchange for

payment. Normally, the required payment is defined by the number of product units the licensee sells (Glowik, 2016, pp. 164-165).

According to Glowik (2016, pp. 164-165), there are several advantages and disadvantages to this type of market entry for both sides. For the licensee, it provides an opportunity to gain access to advanced, but legally protected, intellectual knowledge. However, he also has to take on the risks and financial investments going along with this entrepreneurial undertaking. For small firms with limited resources, licensing can be an attractive entry mode as they can thereby build up operations internationally even if they do not have sufficient financial funds for it themselves.

However, it should be considered that the licensor does not have any control over the operations and the products or services produced by the licensee, and their quality. Thus, there is a risk to the licensor's reputation if the licensee does not follow the agreed quality standards. Therefore, licensors are very dependent on the commitment and reliability of the licensees. Moreover, there is always the threat that the licensee can turn into a new competitor, based on the licensor's knowledge.

#### 4.2.2.2. Franchising

According to Glowik (2016, pp. 164-165), franchising is a different form of a contractual business relationship. Thereby, a franchisor grants franchisee's the right to sell products or services under the franchisor's brand name together with an established business concept. The franchisor and franchisees are not legally and financially connected. However, the franchisor provides the franchisees with assistance in regard to, for instance, administrative or technical issues. For that, the franchisee normally pays a starting fee, a variable amount depending on sales made by the franchisee, as well as advertising expenses.

Franchising can be an attractive entry strategy as it combines knowledge of the foreign market that the franchisee has, his sensitivity to cultural particularities, and his entrepreneurial spirit with the continuing business development, marketing, and economy of scale opportunities provided by the franchisor (Glowik, 2016, pp. 164-165).

Again, there are several advantages and disadvantages according to Glowik (2016, pp. 164-165). For franchisors, it has the advantage of being able to enter relatively fast into a target foreign market, whilst making sure that sales behavior is adapted to the local customer preferences.

However, the disadvantage of this strategy for the franchisor can be the lack of control over the franchisee as he is an independent contractor, not an employee. Again, there is the risk of harming the reputation and the business concept. Moreover, the franchisor is highly dependent on the franchisee on forwarding information as he himself has no direct interactions with the

customers. Thus, potentially necessary product and service alterations are dependent on the information provided by the franchisee.

#### 4.2.3. Joint Venture and Strategic Alliance

##### 4.2.3.1. Joint Venture

A joint venture is a subsidiary that two independent companies establish and manage. The companies establishing the joint venture each contribute capital and know-how. The joint venture has an autonomous status and is not obliged to follow the instructions of the founding companies.

There are two types of joint ventures: equity joint ventures and contractual joint ventures. With an equity joint venture, two or more business partners join together to form a new legally independent enterprise. The distribution of equity in the company and the decision power in the company is determined and can vary.

In a contractual joint venture, no new legal entity is established. Instead, the business partners conclude contracts that regulate costs, risks, and profit distribution.

Forming a joint venture is a common way of entering a new market. One advantage of entering a market through forming a joint venture lies in sharing the entrepreneurial risk. Risks and dangers are distributed among at least two partners and do not have to be borne by one company alone. The use of local market knowledge through a local partner company and the better utilization of resources are also important advantages of a joint venture. The goal is to make use of synergy effects; the strengths of one's own company are to be combined with the strengths of another company and provide competitive advantages. To avoid misunderstandings, the business partners must clearly define and communicate goals and expectations.

Competition law provisions can lead to challenges when setting up a joint venture. Another risk is the danger of a know-how drain; the coordination effort is also frequently underestimated.

Especially for entering the Chinese market joint ventures have been widely used. Until recently it was mandatory for all foreign car companies that wanted to manufacture cars in China to form a joint venture with a Chinese company. The motive of the Chinese government behind this regulation was to ensure a knowledge transfer from experienced foreign companies to local companies. Foreign car makers were willing to follow the regulation, as the Chinese car market was very promising. Since 2018 this joint-venture obligation is being lifted step by step. In the past, many joint ventures between Chinese and foreign companies have failed. Especially contractual joint ventures are often regarded as unstable, and the duration of the business relationship is usually limited in time.

#### 4.2.3.2. Strategic Alliances

Strategic alliances are also a form of cooperation. Unlike joint ventures, the cooperation partners in strategic alliances do not combine their functions, but merely coordinate them, so that there is a relatively low degree of formalization. This does not rule out joint contracts or codified rules. An alignment of strategies and goals takes place. As in the case of joint ventures, strategic alliances are limited to a relatively small group of partners and rarely exceed five parties. Strategic alliances involve two legally independent entities cooperating and partially giving up their legal independence in the field of cooperation (Dietz, 2001, p. 54). From the beginning, they are formed with a specific goal and are not planned to last indefinitely. Realizing a competitive advantage through the partnership is at the center of this strategy. The partners are looking to make use of potential synergies, they try to limit their individual risk and they might look for resources they lack. Decisions are made together. Parts of the individual autonomy in decision-making are given up and handed to the cooperating entity. An exchange and common use of material and immaterial goods take place. The partners share market-relevant information and know-how. Risk and revenue are distributed among the partners. Only parts of the cooperating companies are part of the new entity and they are still individual firms. The partners might be harsh competitors in other sectors or markets. The success of the cooperation is highly dependent on the partner.

Advantages of this strategy are that resources, customers, and knowledge that a company might not have can be accessed through this partnership. The risk of the operation in terms of investments is shared among the partners. With both partners bringing something to the partnership synergies can be made use of. Especially in the phase of exploring a new market, it can make sense to form a partnership with a company that is experienced in the country, as it has a lot of relevant knowledge. This knowledge can be absorbed over a period of time.

Disadvantages are that the control over information and decisions is given to an entity outside the own company, which might have different goals. Different cultures and management styles can lead to differences and can consume resources. Also, after the official end of the alliance, the knowledge which has been transferred stays with the partner company.

#### 4.2.4. Acquisition

Acquisitions involve acquiring a company that is already in existence. An acquisition is a transaction in which a company gains control over another company by purchasing its stock or buying it from the previous private owner. As globalization has marched forward in the past decades, cross-border acquisitions have become a popular way of entering a foreign market. With the take-over of a company in a foreign market a company can quickly establish access to the market. The company that is being bought is ideally well-connected, has a customer



stock, and knows local rules and regulations. However, the cost of this market entry strategy is high, which makes it unattainable for small companies.

There are also strict rules for foreign ownership in many countries. In Germany for example, the takeover of the German industrial robotics company Kuka by the Chinese company Midea in 2017, among other acquisitions by Chinese companies, led to public and political concern (WirtschaftsWoche, 2021). A law was passed which gives the government the right to veto acquisitions by foreign companies. In the USA no foreign entity is allowed to own more than 25% of an airline. Governmental approval can be lengthy and is also driven by political factors. Even though the cost of this entry mode is high, it can also bring a high benefit to the company as it quickly gains knowledge of the market, connections, customers, and know-how.

Next to high costs, an acquisition also comes with high risk. In many cases, the cultural differences between the acquiring and the acquired company are difficult to overcome and managing or integrating the new company can lead to friction.

The degree of control, however, is very high with this entry mode. The company that is looking to enter the market has full control over how the products are developed, adapted to local needs, and marketed. It also provides a full insight into customer behavior and the market environment. Further reasons for choosing an acquisition are making use of the acquired company's market share, existing employed management and labor, supply chains, brand, customer base, financing access, licenses, registrations, and buildings.

Overall, acquiring a company in a foreign market can help a company reach its goal of entering the new market as researching foreign laws, habits, and customer needs can largely be avoided. An acquisition can simplify entering a new market, but it comes with high costs and risks.

#### 4.2.5. Greenfield Investment

A Greenfield Investment involves a company building a new entity in a foreign market based on a business plan developed by the parent company. Greenfield Investments are also known as Foreign Direct Investments. As the name entails this entry mode is about building something completely new "on a green field". The new entity will usually be marketed under the parent company's existing brand. The company must adhere fully to all local laws when building a new entity there.

Reasons for choosing this strategy might be the lack of a suitable company that could be acquired or the concern that the integration of an acquired firm within the parent company might not work out. The desire to design the entity from scratch and according to individual needs can also be a motivation to choose this entry mode.

The risk is high as costs can be unknown. In an acquisition, analysts can work with actual financial statements and costs, but with a greenfield investment many costs are estimated, and

unforeseen regulations and local business culture can make these volatile. To obtain a framework of cost similar cases of other companies should be analyzed if the data can be obtained. A greenfield investment offers a lot of flexibility to the parent company, as it can freely decide on the project scope and details. A detailed business plan and cost analysis need to be carried out.

## **5. Analysis**

### **5.1. Market Analysis**

#### **5.1.1. The Chinese Car Market**

##### **5.1.1.1. General Information**

When China joined the World Trade Organisation (WTO) in 2001 the Chinese car market was in its infancy. The market was at a scale of about 1 million vehicle sales per year. The Chinese economy grew rapidly since then. From 2000 to 2010, the Chinese gross domestic product (GDP) quadrupled to 41 trillion Yuan and the car market grew more than 10-fold (Liu, Peng, & Shen, 2018, p. 3). The average GDP growth rate over the last two decades lay at 11,3% per year (CEIC Data, 2021). Eight years after joining the WTO in 2009, China surpassed the US as the biggest car market worldwide (Jiayi Ho, 2010, p. 1). In 2019, 21.05 million new cars were registered in China, followed by 16.97 million in the US, 15.34 million in the EU-28, and 4.3 million in Japan.

Despite this stark growth, there is still potential in the Chinese car market. Hundreds of millions of Chinese still do not own a car. In 2021, there were an estimated 292 million cars on Chinese streets (Gasgoo, 2021) with a population of 1.44 billion. That amounts to less than one car per every seven individuals or about 200 vehicles per 1,000 inhabitants (Statista, 2020a). In comparison, in the US, there were over 800 vehicles per 1,000 inhabitants and in Germany and Portugal about 600 per 1,000 inhabitants (Statista, 2020a) (PORDATA, 2021).

In recent years, however, growth has slowed in the Chinese car industry. 2018 saw the first annual drop in Chinese car sales in almost three decades (Sun & Goh, 2019, p. 1). A cooling economy has slowed down the growth of the Chinese automobile market with negative growth into 2019 (Mordor Intelligence, 2021). Even though new car registrations in China in 2019 dropped 9% from 2018, it was still the biggest car market worldwide by far and about 28% of all cars worldwide were produced in China (Statista, 2021c). The slowdown in the Chinese car market was initiated by a trade dispute between the US and China, a dent in consumer confidence, and new regulations on vehicle emissions (Kubota, 2020). The Covid-19 crisis and lengthy lockdowns led to consumer spending decreasing. However, the slowdown in car sales

was mainly felt by companies selling in the mass market. For the luxury car market, 2020 marked the third consecutive year of growth with over 3 million units sold (Mordor Intelligence, 2021). Premium and luxury car makers were still increasing sales and Porsche China, for example, managed to break their sales records for 8 consecutive years (Porsche AG., 2022). Despite the Covid-19 measures, Porsche China had a record year in 2021, delivering 95,671 vehicles to customers, which was 8% above the previous year with 88,968 deliveries (Porsche AG., 2022).

In the past, foreign automakers were forced to found joint ventures with Chinese partners owning a share of at least 51%, when they wanted to sell vehicles to Chinese customers. In recent years a lot has changed in this respect. Xi Jinping declared at the Boao forum in 2018 that market-entry hurdles into the Chinese car industry will be lowered to honor WTO commitments (Ren, 2018). Now, the government allows international automakers to set up more than two joint ventures and fully foreign-owned car companies are allowed (Lichtenstein, 2019).

Secondly, the landscape of the car industry has changed rapidly as a phase of new energy vehicles (NEVs) is entered. The electrification of cars has led to the Original Equipment Manufacturer's advantage of decades of experience with engineering internal combustion engines being less valuable. Developing battery electric vehicles (BEVs) and plug-in hybrid vehicles is new to everybody and many companies seized the opportunity to enter the worldwide car market, an example being Tesla. This is especially true for China with 550 registered electric car makers in 2018. Nonetheless, the Chinese government has decreased incentives for EVs with the aim of catalyzing a consolidation in the Chinese car market. Of the 550 registered EV firms, many are not going to survive this phase, Byton being an example. There are high taxes on luxury goods and imported cars in China. Including these taxes, vehicles can cost Chinese consumers 200% of what they cost in Europe. Nevertheless, there is still a high demand for foreign brands in the Chinese car market. Of the vehicles sold in China in 2019 38.9% were produced by Chinese brands, 24.3% by German brands, 21.6% by Japanese brands, 9.1% by US brands, 4.5% by South Korean brands, and 0.6% by French brands (Statista Research Department, 2022).

#### 5.1.1.2. Chinese Premium and Luxury Car Market

Growing wealth in China leads to a higher demand for premium and luxury products in general and cars in particular. The group of dollar millionaires and billionaires has seen strong growth in recent years. As of April 2021, 626 billionaires (USD) live in China. This is double the amount than in 2020 (Giacomo, 2021). The Chinese luxury market had a size of 136 billion Euros in 2020 and is expected to grow to 220 billion Euros in 2026 (Mordor Intelligence, 2021). The Chinese luxury car market has grown by 36 % per year in the last decade (Mordor Intelligence,

2021). The demand for premium and luxury cars is expected to continuously increase and register a compounded annual growth rate (CAGR) of 3 % until 2027, resulting in a market value of USD 175 billion by then (Mordor Intelligence, 2021). China is already the largest market for luxury cars in the world, accounting for more than one-third of global luxury car sales (Guan, Gao, Wang, Zipser, & Shen, 2019). Coming from communism and uniformity, luxury goods are now a popular way of expressing one's individuality for Chinese consumers. Also, Chinese consumers are increasingly seeking out luxury cars as a symbol of status and success. The combination of a big group of wealthy consumers and the willingness to spend on luxury goods makes China a market with high potential for companies producing luxury vehicles.

#### 5.1.1.3. Trends in the Chinese car market

The global car market is going through a transformational phase. The major trend forming this phase is the transformation from internal combustion engines (ICE) towards new energy vehicles. Research and car sales show that Chinese consumers are increasingly willing to buy NEVs and pure EVs in particular (Statista, 2020a). Therefore, China has become one of the world's largest markets for EVs, with sales increasing significantly in recent years (Strategy&, 2021). This transformation towards new drive training technologies makes it the right time for new players to enter the market. More new car manufacturers are emerging than in the previous 50 years. Start-ups and competitors from other industries and markets are joining the market. These do not need to develop the highly complex ICE and compete with players that have decades of experience with this. Newcomers push cars into the market at an incredible pace, with success stories like Tesla being exemplary of this trend. In the past, the Chinese government has been generous with incentives for EVs and improving infrastructure for charging. China has begun to reduce those incentives in order to have a consolidation happen in the market. As government incentives have been reduced in recent years, rules for Co2 Emissions for car producers have been tightened (Li, Yang & Sandhu, 2018).

Contradictory to the regulatory push to CO<sub>2</sub>-friendly fleets, SUVs are in high demand with customers worldwide, especially in the Chinese market. SUVs are requested by consumers, but due to their higher price point, compared to regular sedan cars they also enable car makers to attain higher profits.

Another major trend is the rise of mobility solutions such as ride-hailing services. In China, the number of ride-hailing vehicles on Chinese streets has massively increased over the last decade. Didi Chuxing and Meituan are examples of companies benefiting from this trend and have the potential to lastingly disrupt the traditional car ownership model in China. A study published by Wang, Y., Shi, W., & Chen, Z. (2021) found that regular users of ride-hailing services are more likely to own fewer private vehicles.

There has also been a trend towards advanced, high-tech vehicles in China. The Chinese society overall is comparably open to new technologies and consumers expect vehicles to have a high-tech user interface and seamless connectivity to their smartphones. Autonomous driving and connected car technologies are areas with large investments. The Chinese government sees these areas as an opportunity to compete with western car makers as these areas are in their infancy around the world.

Overall, the Chinese car market is experiencing significant shifts towards EVs, ride-hailing services, and advanced, high-tech vehicles. These trends are likely to continue in the coming years and will have a significant influence on the global automotive industry.

### 5.1.2. Porter's 5 Forces

Porter's Five Forces is a framework for analyzing the competitive forces in an industry and it can be used to assess the attractiveness of entering a particular market. The Analysis, originally published in Michael Porter's book "Competitive Strategy: Techniques for analyzing industries and competitors" in 1980, creates an overview of the factors characterizing a market by considering five dimensions: power of buyers, power of suppliers, threat of new entries, threat of substitutes, and competitive rivalry (Johnson, Scholes, & Whittington, 2008). In the following I will apply the framework to the Chinese market of fully electric high-end luxury vehicles for Automobili Pininfarina:

#### **Threat of new entrants:**

As stated in chapter 5.1.1.3, the Chinese automobile market is transforming from traditional ICE powertrains to EVs. This is game-changing as it makes the traditional entry barrier irrelevant. While traditional car makers had the advantage of decades of experience with combustion engines, the new powertrains such as fully electric powertrains are mainly new to them. Thus, the entrance barrier to the EV market is relatively low. That is why Tesla was able to gain a foothold in the global car market in just several years. Many Chinese companies have entered the EV market in recent years as well. Moreover, competitors can come from different industries, like the tech industry. These companies have the advantage of having relevant experience in areas such as developing the relevant software for cars. Sony presented the concept car "Vision-S" in 2020. A unique selling proposition of the car is the infotainment system, which delivers perfect performance and usability. Infotainment is becoming increasingly important in cars and Sony has decades of experience to build upon in the field. Automobili Pininfarina will produce EVs at the luxury level comparable to Bentley. They will make use of their name and the fame of their first hypercar, the Battista. The high upfront costs of developing and producing luxury EVs, as well as the need for a strong brand and distribution

network are barriers to entry for new firms. Therefore, the threat of new entrants into the luxury electric vehicle market segment in China in which Automobili Pininfarina will position itself is relatively low.

**Bargaining power of buyers:**

When it comes to luxury goods, for many Chinese consumers the concept of mianzi (face) comes into play. As the Chinese culture is highly collectivistic it is very important to many Chinese how they are being seen by others. In Western cultures, the consumers of luxury goods tend to make the purchasing decision based on their individual preferences. Chinese luxury consumers are willing to pay a premium price if the product increases their social status. Chinese consumers are very eager to buy luxury goods to show their status and differentiate themselves from people that cannot afford them (Gong, Jun, D'Alessandro & Winzar, 2011). Therefore, the bargaining power of buyers in the luxury electric vehicle market in China is not very relevant in this case. If Automobili Pininfarina manages to produce luxury EVs and use the Battista's fame, customers are willing to pay for the brand, the exceptional luxury product, and the social status that comes with it. The cost of switching to another brand is low for customers, but currently, there are only very few comparable fully electric vehicles in this segment.

**Bargaining power of suppliers:**

The vehicles will be produced in Italy and the suppliers for the production are based in Europe. Some suppliers like Rimac, which delivers the powertrain for the Battista, have a high bargaining power because the cost of switching to a new supplier is high for Automobili Pininfarina. In China, Automobili Pininfarina will have partners for logistics, and depending on the entry mode they will have fewer or more partners for sales and after-sales activities. If Automobili Pininfarina chooses to only export to China, they would need a partner or partners for all their business activities in China. These partners would penetrate the value chain deeper and would be harder to exchange for Automobili Pininfarina. If they choose to do a greenfield investment, they would have more control over their value chain and partners would be easier to exchange, therefore the bargaining power of those service providers/suppliers would be lower. In the middle of the range of entry modes based on risk and cost lies the joint venture. In this form of entry mode Automobili Pininfarina would tie the knot with a company with local knowledge and connections. The bargaining power of this specific partner is very high as Automobili Pininfarina shares its knowledge, business, and revenues with this partner. If the local partner decides to change their demands, switching to a new partner comes at a very high cost. Threatening with a lawsuit if the local partner breaches a contract, is also an unfavorable situation for Automobili Pininfarina, as lawsuits can take a long time and are often

decided in favor of the local counterpart in China. Therefore, the choice of partners, especially when entering a strategic partnership or a joint venture should be done very carefully.

#### **Threat of substitutes:**

Automobili Pininfarina's current only product is the Battista. Further vehicles like a fully electric luxury SUV will follow. For the Battista, there is currently only one comparable vehicle sold: the NIO EP9 starting at about 1.5 million Euros. Other companies that offer cars in the price range like Ferrari, Bugatti, Pagani, and Koenigsegg do not offer a fully electric car yet. Based on its specifications and price the threat of substitutes for the Battista in China is low. The second generation of Automobili Pininfarina's cars will be in competition with Bentley, Aston Martin, and Rolls Royce. These companies do not offer a fully electric vehicle yet. In lower price categories, like Porsche or Tesla, there are fully electric vehicles being sold. Porsche, for example, already offers a fully electric sports car, the Taycan, which costs around 170'000 Euros. The Taycan was sold about 35'000 times worldwide in 2022. Automobili Pininfarina will go for lower quantities at a higher price with more possibilities for individualization. Therefore, the threat of substitutes for Automobili Pininfarina is relatively low at the moment in China.

#### **Rivalry among existing competitors:**

As the luxury electric vehicle market is just beginning to grow, the level of rivalry among existing competitors in the luxury electric vehicle market in China is likely to be low. There are many well-established brands competing in the ICE market and there is a growing choice of electric hybrid vehicles, but the companies offering fully electric luxury vehicles are limited. The demand for fully electric vehicles is likely to be so high, that rivalry is quite low. Automobili Pininfarina should be aware of the Chinese consumers' demands, such as highly connected vehicles, to stay competitive in the long term.

Based on the Porters-5-Forces analysis, the attractiveness of the Chinese luxury electric vehicle market for Automobili Pininfarina is moderate to high. The low threat of new entrants and substitutes could make it an appealing market for the company.

#### 5.1.3. PESTEL

The following PESTEL framework analyzes the impact of the external factors (political, economic, social, technological, and environmental factors) on Automobili Pininfarina in the Chinese market.

**Political:**

China is a state, which is well-known for exerting significant influence on its economy. Moreover, China has implemented various strict policies and regulations concerning foreign businesses. For example, it is not possible for foreign entities to invest in media companies. Another example is the past policy, that foreign car manufacturers could only enter the Chinese market by forming a joint venture with a local company. This regulation has been lifted and fully foreign-owned companies are now possible, as mentioned in chapter 5.1.1.1.. Nonetheless, the government is influential in foreign car companies in China. If a company employs three or more people that are members of the communist party, the company has to open a party office inside the company, which can have an influence on management decisions (Heide, 2022). The Chinese government supports the production and sales of new energy vehicles. There have been incentives in place to support this market. These incentives have been reduced in recent years. Instead, the Co2 regulations have been tightened. Automobili Pininfarina will not be strongly affected by incentives and regulations. Luxury customers will not rely on government incentives for the purchase of a two-million-euro vehicle. Co2 regulations will also not influence Automobili Pininfarina with their fully electric vehicles. The government supporting charging infrastructure is an indirect advantage for Automobili Pininfarina. A threat could be the blockage of imports for political reasons. If a trade dispute between the EU and China would escalate, the Chinese government could react by forbidding imported goods. Especially in the luxury segment, Chinese customers are drawn to foreign brands. So, the government might turn to other industries, when thinking about measures in trade disputes.

**Economic:**

China is the second-largest economy in the world and a major market for luxury goods such as cars. The demand for luxury cars has grown in the past and is expected to continue to grow (Mordor Intelligence, 2021). Not only is the luxury car market in general growing, but also the EV market, which is both very beneficial for Automobili Pininfarina. However, the economy has faced challenges in recent years, including slowing growth, trade tensions with the US, rising labor costs, and COVID-19. The luxury segment has still grown despite economic problems and even during lengthy lockdowns in China, where it was very difficult for Chinese consumers to spend their money. The amount of dollar billionaires and millionaires is large and even during a recession, luxury products will be bought. A changing economy will pose less of a threat to Automobili Pininfarina in the luxury segment than it will to e.g. Volkswagen in the mass segment.



**Social:**

China has a large and diverse population with different cultural and social norms in different regions. The country has a strong consumer culture with a growing demand for luxury goods and services. There are growing concerns about environmental sustainability and the impact of pollution on public health. Chinese consumers are increasingly taking the environmental impact into consideration when choosing their goods. The adoption of NEVs in China is high. Chinese consumers use luxury goods to show their financial success and their individuality. Automobili Pininfarina is an Italian company and will use its Italian design and craftsmanship to improve its image with Chinese consumers. This association of the brand with Italy can carry a risk for Automobili Pininfarina. The French retailer Carrefour and the French luxury group Louis Vuitton Moët Hennessy faced massive backlash and a boycott in China in 2008, when a pro-Tibet protester tried to snatch the Olympic torch from a Chinese Paralympian in Paris. In the eyes of many Chinese, the French were seen as pro-Tibet, which China sees as a potentially separatist state (Reuters, 2008). The Italian government has drawn anger from China when awarding the spiritual leader of many Tibetans the Dalai Lama honorary citizenship of the Italian capital Rome (Reuters, 2009).

**Technological:**

China has become a leader in technology and innovation in the automotive sector. The country now has a large and advanced automotive manufacturing industry with a strong supply chain and advanced production capabilities. Automobili Pininfarina will manufacture its vehicles in Italy and import them to China. The main contact with the local technological environment is through local charging infrastructure, which has become better developed in the main cities in recent years. As China is at the forefront of many technological developments, Automobili Pininfarina can benefit from its interaction with the Chinese market. Nevertheless, there is competition in the EV market in China with highly developed new energy vehicles. At the luxury and price level of Automobili Pininfarina, the competition is not strong.

**Environmental:**

China faces significant environmental challenges, including pollution, deforestation, and climate change. The government has implemented various policies to address these issues, including stricter emissions standards for vehicles. These policies could potentially impact the sales of vehicles in the country. As Automobili Pininfarina with its fully electric vehicles offers an environmentally friendly product, government measures would most likely benefit Automobili Pininfarina.

**Legal:**

China has a complex legal system with various laws, regulations, and standards that foreign businesses must comply with. These include intellectual property laws, consumer protection laws, and environmental regulations. Non-compliance with these laws could result in legal challenges and other consequences for foreign businesses operating in the country. In the past, foreign companies have felt that the Chinese legal system favors Chinese parties in legal disputes. Safety and environmental standards need to be researched and strictly applied in order to not risk a conflict with the law, which could make operations of Automobili Pininfarina in China stop very abruptly. Even though the regulation on foreign ownership of Chinese car companies is being lifted, that does not necessarily mean that the government is not influencing businesses.

Overall, the growing demand for electric vehicles and luxury products in China and growing societal awareness of sustainability lead to China presenting a good opportunity for Automobili Pininfarina. The company will operate in a country that presents new challenges to them. They will have to navigate a range of external factors, including economic, political, and technological developments, in order to succeed. The right choice of entry mode is important to deal with these factors. Through a partnership or a joint venture with a local partner, Automobili Pininfarina would immediately have the knowledge available on all the above-mentioned PESTEL factors and would therefore be advisable.

#### 5.1.4. Transactional Environment

##### 5.1.4.1. Stakeholders

Stakeholders can be described as people who are interested or concerned with something, especially a business. For Automobili Pininfarina's operations in China, stakeholders might be the following:

**Shareholders:** In the case of Automobili Pininfarina, the Mahindra Group is the sole owner of the company, has invested money into the business and therefore, has a financial stake in the success or failure of it. Thus, they are very interested in the company's financial performance, such as profit and revenue. Moreover, they will also be interested in the management and strategy, as well as any other developments that affect the financial performance.

**Employees:** Other stakeholders are the employees of Automobili Pininfarina in and outside of China as they are directly impacted by the company's operations and performances. They will be interested in working conditions, salary and benefits, and their own career development

opportunities with the company. Furthermore, they are likely to be concerned about their job security and stability.

**Customers:** The customers of Automobili Pininfarina are also stakeholders as they are purchasing and using the company's products and services. They will be interested in the quality and security of the products, as well as the customer service level that is provided.

**Suppliers:** Other companies or individuals who supply goods and/or services to Automobili Pininfarina in China are also stakeholders as they are also directly impacted by the company's operations and performance. They will also be interested in the company's stability and longevity as well as the conditions of their business relationship with Automobili Pininfarina. Moreover, their current suppliers in Italy are an important part of their transactional environment as Automobili Pininfarina is currently only producing in Italy. They will need to work with a range of different suppliers for the various raw materials such as steel and aluminum, as well as components such as engines, transmissions, and electronics. Thus, it is important for them to build a strong relationship with all suppliers to ensure a steady supply of materials and thereby a steady production, which can maintain the high quality of the cars. To do this, they could sign long-term contracts, provide advance payments or offer other incentives to encourage suppliers to prioritize their needs. They may also need to cooperate with various suppliers to ensure a consistent supply and thereby reduce the risk of supply chain disruptions. On the other hand, in order to ensure the quality of the produced cars, Automobili Pininfarina should establish quality control standards and regular audits for their supply. Moreover, the cost of materials and components also plays a major role in their production. They will need to negotiate with suppliers to make sure that they get the best prices for the supply whilst ensuring that they do not compromise on quality.

**Local communities:** Local communities in China, in which Automobili Pininfarina operates, may be stakeholders as the activities of the company may have an impact on the local environment, society, and economy. Economic benefits for the community may be generated through employment and the procurement of local goods and services. However, there may also be negative impacts such as pollution or traffic congestion. Thus, the local communities may be interested in the environmental and social practices of the company.

**Government:** Another important stakeholder is the Chinese government as it has an interest in the activities of Automobili Pininfarina in the country. It may regulate or influence them in different ways. They will be interested in their compliance with the local laws and regulations as well as their contribution to the economy and development of the country.

#### 5.1.4.2. Competitors

Automobili Pininfarina's competitors are an important part of their transactional environment in China. Current competitors for the Battista in the Chinese luxury car market include well-established brands such as Ferrari, Bugatti, Pagani, Koenigsegg, and NIO. Of these, only NIO offers a fully electric vehicle supercar. The extended competitor set, which will also apply to the future generation of cars produced by Automobili Pininfarina includes Lamborghini, Aston Martin, Bentley, Rolls Royce, and Tesla. These companies have a strong presence in the Chinese market and enjoy a high level of brand recognition. To succeed in the Chinese market, Automobili Pininfarina will need to differentiate itself from its competitors through its unique design, technology, and customer service.

Ferrari is a luxury sports car brand that has a strong presence in the Chinese market. The company also produces its cars in Italy and exports them to China. A wide range of luxury sports cars is available. Ferrari has a strong network of 17 dealerships and service centers throughout the country, which allows them to reach customers in different cities. Ferrari does not offer a fully electric vehicle yet. The company is expected to present it in 2025 (Taylor, M. 2022).

A domestic competitor is NIO, a Chinese EV manufacturer that has been gaining traction in the worldwide car market. NIO's first car and flagship model, the EP9 costs more than 1,5 million euros and is a high-performance EV that has been compared to the Battista. NIO offers only fully electric vehicles and used the EP9 to gain international recognition and then started selling other vehicles at a lower price like Automobili Pininfarina plans to do.

Figure 5.1.: NIO EP9 - Competition for the Battista



Source: Specht, 2016.

The first production car NIO offered was an SUV called ES8. The car was well received but there were cases where it randomly caught fire and all produced cars had to be recalled to fix the problem. Therefore, the image of NIO took a dent in Chinese consumers. The company needed a lot of money to operate without bringing in profits yet. The reduction of government incentives for EVs and the COVID-19 crisis brought NIO close to bankruptcy. The company had to be saved in 2020 by the local government of Hefei, a prefecture-level city in Anhui province. NIO's products are situated in the premium segment. Automobili Pininfarina plans to compete in the luxury segment with higher quality and prices, comparable to Bentley (Korosec, 2020).

Bentley, the British luxury car manufacturer, has been present in the Chinese market for several years and has established a strong presence among luxury car buyers in the country. The brand's flagship model, the Bentley Continental GT, has been particularly popular in China. In recent years, Bentley has also introduced new models like the Bentayga SUV catering to the growing demand for luxury SUVs in China. Additionally, Bentley has been investing heavily in its dealer network and after-sales service in China in order to provide a high level of customer service to its Chinese buyers. Bentley does not yet offer a fully electric vehicle. It will introduce its first fully electric car in 2025 (Carey, 2022).

Automobili Pininfarina's competitors have a strong foothold in the Chinese market with well-established brand recognition, a wide range of models, and a strong distribution network. The competitors offer luxury vehicles and fully electric vehicles. None of the competitors offer a fully electric sports car like the Battista or a fully electric luxury SUV at the price point of a Bentley Bentayga as Automobili Pininfarina intends to do. This offers an opportunity for Automobili Pininfarina and they can claim a first mover advantage. They need to move fast, gain awareness with Chinese consumers, and establish a strong distribution network to reach customers throughout the important cities.

In conclusion, Automobili Pininfarina's transactional environment in China is complex and requires the company to effectively manage relationships with a variety of stakeholders including clients, competitors, suppliers, shareholders, and the local community. The company must also have a deep understanding of the local market, regulations, and business practices to succeed in the highly competitive Chinese luxury car market.

## **5.2. Internal Analysis**

### **5.2.1. Management Team and Human Resources**

Automobili Pininfarina is a start-up and the preparation of entering the Chinese market is currently done by one person:

Judy Zhu is the Head of Strategy and Market Launch China at Automobili Pininfarina. She has attained a master's degree in engineering at the Technical University of Brunswick, Germany, which is traditionally close to the Volkswagen Group. She wrote her master's thesis on the effects of Guanxi ("relationships") on customer loyalty in the Chinese market. She has gained insight into China and the automotive industry and gained experience at Shanghai Volkswagen in powertrain development. She has spent 7 years working for Porsche in Stuttgart working in Market Research and Internal Consultancy. She then continued to do an MBA at the London Business School on the Walpole scholarship, which is meant to form future leaders in the luxury industry. Afterwards, she worked as a consultant for Luxury handbag brand Mulberry, Ferrari, and the Chinese car maker NIO, where she continued to work as Director Chief of Staff. She worked for a Venture Capital company in London and was hired by Automobili Pininfarina in 2019 to prepare the entrance to the Chinese Market. Next to her theoretical education and years of professional experience, she has knowledge of the Chinese language and culture. Her impressive skill set makes her an important asset in the company's goal to enter the Chinese market.

Further executives of the company that will contribute to the endeavor and have decision power over it are:

#### **Chief Executive Officer - Per Svantesson**

Per Svantesson started his career in the automobile industry working on the Volvo assembly line when he was 16 years old. His father held senior positions in powertrain development at Volvo for decades. Per himself later held senior leadership positions at Volvo and other companies developing gas-electric hybrid powertrains for 20 years. He worked on hybrid bus development and battery companies. He was Chief Operating Officer of Automobili Pininfarina since its founding in 2018. He was appointed CEO in March 2020, when Michael Perschke the former CEO left the company.

#### **Chief Financial Officer - Tushar Gadre**

Tushar Gadre holds degrees in mechanical engineering and costing, project management, and financial management. His experience at Automobili Pininfarina's investor, the Mahindra Group

spans from engineering to business planning and product development accounts. He also gained experience in a management position at the Bosch Group in India.

#### **Chief Brand Officer - Dan Connell**

Dan Connell has gained experience with Public Relations at Volkswagen Group, MINI, McLaren, and Jaguar Land Rover before joining Automobili Pininfarina when it was launched in 2018. At McLaren, he led the communications launch of McLaren Automotive in 2009. At Jaguar Land Rover he was responsible for the global marketing communications and PR strategy behind the new special vehicle's operations in the classic business division.

#### **Chief Sales Officer - Goesta Henning**

Goesta Henning spent seven years at Bentley, where he rose to become Head of Marketing Europe. He has a background in engineering having studied business engineering at the Hochschule für Technik in Berlin.

#### **Chief Design Officer - Davide Loris "Dave" Amantea**

Dave Amantea is a passionate automobile designer with international experience. He was a Senior Designer at Alfa Romeo - Maserati, at Volkswagen Group, Jaguar Land Rover, NIO, and a Design Professor at different Italian Universities.

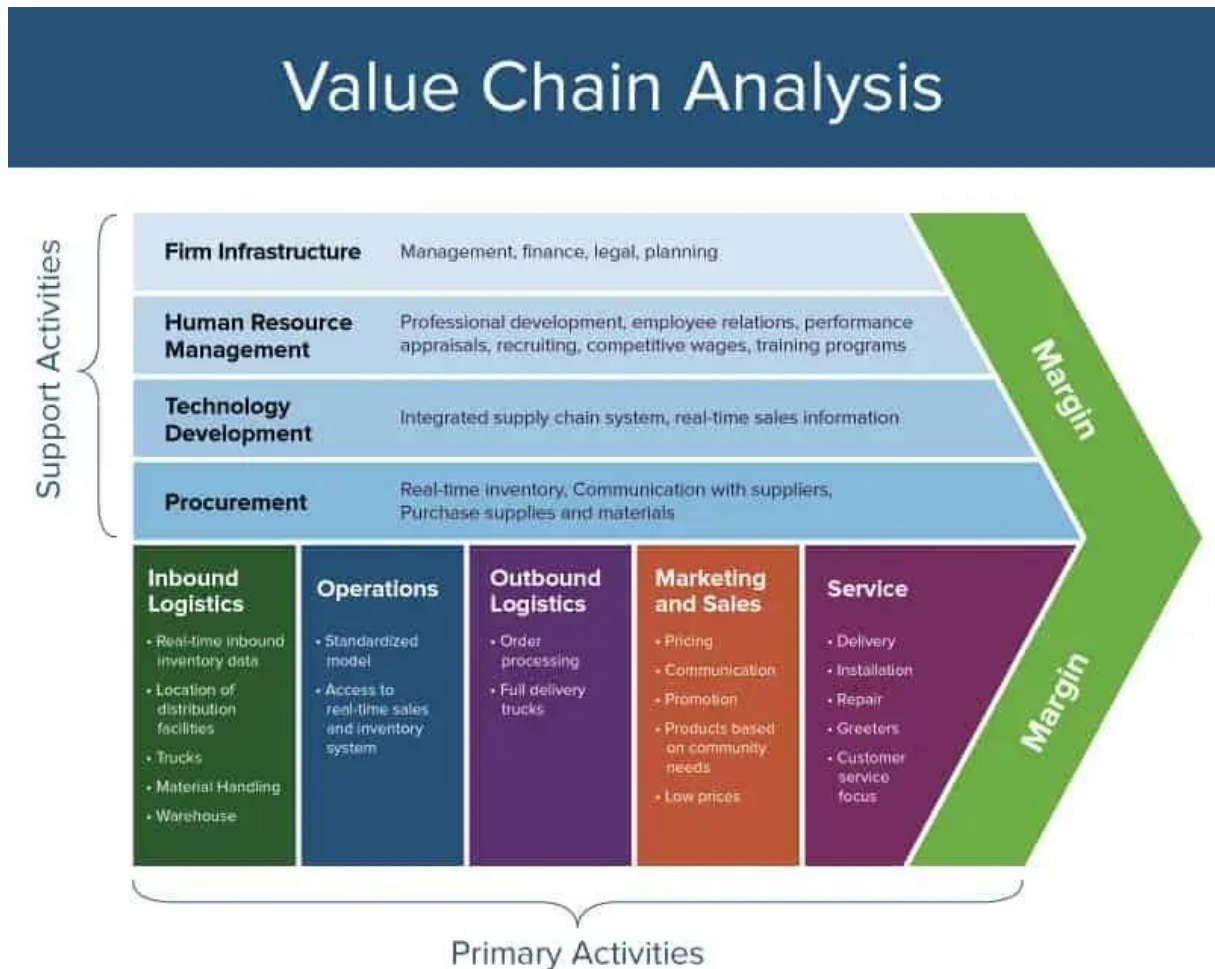
#### **Chief Product and Engineering Officer - Paolo Dellacha**

Paolo Dellacha has many years of experience in automobile engineering. He spent 15 years with Ferrari and over ten years with Maserati. He is responsible for the development of Automobili Pininfarina's future range of fully electric luxury vehicles.

The company's headquarters is based in Munich, Germany. The headquarters of some of the largest automakers in the world (e.g. BMW, Audi, Porsche) are in relative proximity. Therefore, Automobili Pininfarina can draw from a rich talent pool in the area. The total number of employees at Automobili Pininfarina averaged 108.5 over the year 2021. 45 of those employees work at the Design, Engineering, and Manufacturing hub in Turin. The company is growing and in the previous year 2020, the total number of employees was 68.75 with 28 of those in Turin (Automobili Pininfarina GmbH, 2022).

## 5.2.2. Value Chain Analysis

Figure 5.2.: Value Chain



Source: Eby, 2018

A value chain analysis for Automobili Pininfarina in China examines all the activities and processes that enable the company to sell its products to Chinese customers. These activities can be divided into primary and supporting activities. The primary activities add value directly to the product while supporting activities only add value indirectly.

### Primary activities:

#### **Research and Development:**

Automobili Pininfarina does its research and development in Italy. Fully electric luxury vehicles are designed and developed by experienced professionals like Paolo Dellacha. In the design department, Automobili Pininfarina can draw from the experience that the design company Pininfarina SpA has gained over decades of designing some of the most iconic sports cars.



Some of the key parts of the vehicle are bought from suppliers, like Rimac, which supplies the drivetrain for the Battista.

**Procurement:**

Automobili Pininfarina's procurement process begins with sourcing raw materials, such as steel, aluminum, and carbon fiber from suppliers. Like major car makers, certain parts are bought from suppliers as a whole and are not produced in-house. Throughout the procurement process, they place a strong emphasis on quality control, ensuring that every car they produce meets their strict standards. The materials and parts are used in the manufacturing process, which takes place at Automobili Pininfarina's factory in Turin, Italy.

**Manufacturing:**

The assembly of the vehicles using the procured materials and components only takes place in Italy. During the manufacturing process, various components, such as the body and the infotainment system, are assembled and tested to ensure they meet the company's high-quality standards. Once the cars have passed all necessary tests, they are shipped to customers worldwide including China.

**Marketing and Sales:**

Automobili Pininfarina's marketing and sales activities in China play an important role in its value chain. At this point, the activities should become specific to the Chinese market. To reach potential customers, the company should employ a marketing strategy that includes digital marketing, event sponsorships, and product placements. A detailed strategy can be found in chapter 7.2.4..

Furthermore, Automobili Pininfarina needs to develop a network of dealerships throughout China that serves as the primary point of sale for their cars. These dealerships showcase the latest models and provide test drives for prospective buyers. Overall, Automobili Pininfarina's marketing and sales activities in China are designed to create demand for their products, show the exclusivity of the brand, and help to drive sales.

**After-sales service:**

Revenue from after-sales activities play an important role for every car maker. The after-sales department is often called the backbone of a car-producing company. Next to the revenue, Automobili Pininfarina's after-sales activities can ensure customer satisfaction and loyalty. When a customer is unhappy, for example, because his car broke down, this is the perfect time for Automobili Pininfarina to show that they are a luxury brand and provide first-class service. When the customer can be made happy in a situation like this, he will remain a

customer and talk positively about the company to his peers. Currently, Automobili Pininfarina offers a service called “Flying Doctor”, where a team of mechanics boards a plane and comes to the customer's vehicle as soon as possible to fix issues that the car has. The company should also offer services such as regular maintenance and vehicle upgrades to keep this revenue in-house and increase customer loyalty. They already offer comprehensive warranty programs that cover repairs and replacements for any defects in materials or workmanship. Especially in this high-end luxury segment, the company should use customer feedback and complaints to improve their after-sales service and maintain a dedicated customer service team to address local customers' issues. When a customer brings his vehicle to inspection at a dealership he gets in touch with the latest models, through cars that are exhibited and cars that are given to customers as substitutes, while their vehicle is in maintenance.

### **Supporting activities:**

#### **Infrastructure:**

As the production infrastructure is located in Italy, Automobili Pininfarina needs to establish a distribution network in China. This includes a network of dealerships, which should first be located in key cities throughout the country, such as Beijing, Shanghai, Hong Kong, Shenzhen, and Guangzhou. These dealerships should also supply after-sales and repair services. Automobili Pininfarina also needs an infrastructure for a strong online presence in China, which includes a dedicated website and social media accounts in order to create brand awareness and drive sales. All these elements make up the infrastructure of Automobili Pininfarina in China and are essential for the company to successfully operate in the market and deliver high-quality products and services to its customers.

#### **Human Resource Management:**

Automobili Pininfarina will employ a diverse workforce in China, which will include both local and international employees. Staff from the headquarters in Munich and the production facility in Italy will provide training to ensure that the local employees have the skills and knowledge to deliver high-quality service to customers. It is important to create a positive and inclusive work culture, which helps to attract and retain top talent. In China, the turnover rates for employees are higher than in Europe (Dani, 2022). For a luxury company, it is important to have experienced employees that built lasting relationships with customers. Therefore, the company needs a dedicated human resources team that is responsible for recruiting, hiring, and managing the company's workforce in China. Additionally, Automobili Pininfarina should offer comprehensive benefits packages for its employees, including health insurance, retirement plans, and paid time off.

**Technology Development:**

Offering high-end luxury vehicles, the company needs to place a strong emphasis on technology development in order to stay at the forefront of the automotive industry. As China has developed strong technology companies in the past decades, customers are used to top-of-the-line technology and software. An inferior infotainment system for example will not be accepted by Chinese customers. Autonomous driving technologies are also a focus in Chinese automobile development. Automobili Pininfarina can see its presence in China as a chance to keep in touch with the latest developments in China. Partnerships with local technology companies might be necessary to offer local media streaming services. These elements will be substantial to maintain a reputation for producing high-technology cars and stay competitive in the industry.

**Logistics:**

A logistics process needs to be set up with a reliable partner that has experience in transporting luxury vehicles from Europe to China. A well-established logistics network ensures the timely and efficient delivery of their cars and parts to dealerships throughout the country. Damages need to be avoided as they come with high costs and additional waiting time for the customers. Customers of the very expensive Battista will have their cars transported by airplane. The cheaper models will be shipped by boat as standard. If the customer pays for delivery by plane, Automobili Pininfarina will organize it. The company should use advanced logistics management systems to track and monitor the movement of its products and to optimize its logistics operations. Additionally, Automobili Pininfarina should have a logistics expert in China that is responsible for managing the company's logistics operations there and ensuring that their products are delivered to customers in a timely and efficient manner.

**Procurement of IT systems:**

The company has IT experts at their headquarters in Munich and the main responsibility for procuring IT systems should stay there as IT security and compatibility of systems within a company is essential. There should be an expert in China who is responsible for maintaining the various IT systems and providing training for these. Necessary IT systems include enterprise resource planning systems, customer relationship management systems, logistics management systems, and after-sales systems. To ensure smooth operation, the headquarters need to make sure the systems can work in China and work closely with the local expert.

### 5.3. SWOT

The analysis of strengths and weaknesses, as well as threats and opportunities are derived from the external and internal analysis of Automobili Pininfarina.

#### **Strengths**

Automobili Pininfarina has many strengths to make use of. One of them is their design expertise due to Pininfarina SpA.'s 90-year experience in designing many of the world's most legendary automobiles, like the Ferrari Testarossa. The Battista clearly shows this expertise. The design heritage and the fact that the name Pininfarina is well-known among car enthusiasts gives the company an advantage over its new competitors, who firstly have to build a name for themselves in the industry.

Moreover, with the Battista, Automobili Pininfarina has achieved a very clear positioning in the luxury and premium market. This is not only due to the high price point of about 2 million euros but also due to the limited production number of only 150 vehicles and their Italian, hand-built craftsmanship. Together, this sets a very clear tone for exclusivity and luxury.

Another product-focused strength of Automobili Pininfarina is the technology used for the Battista. The hypercar market largely consists of cars with an internal combustion engine (e.g. Bugatti Chiron, Pagani Zonda). In recent years electric engines have found their way into hypercars as an addition to an ICE (e.g. Porsche 918 Spyder, Ferrari LaFerrari). When it comes to fully electric car hypercars there are only very few options available (e.g. NIO EP9). Fully electric cars have a growing share in the mass market and premium segment (e.g. Tesla, Porsche). So far, the Battista is unparalleled by its competitors.

Another strength of Automobili Pininfarina is that with the Mahindra group, it has a strong financial backer, which not only provides them with unusual certainty for a company in their start-up phase but also comes with a useful Asia-wide network. Synergy effects can be found when it comes to sourcing and production know-how. On the other hand, their start-up status gives them the advantage of having a lean and efficient structure, which makes decision-making easier and quicker. Automobili Pininfarina can also make use of automobile know-how and sourcing networks that the Mahindra Group has, as it is active in automobile production as well.

Automobili Pininfarina has its headquarters in Munich, Germany, which is considered *the* Automobile country. This puts them, regionally, in an optimal position to recruit talented staff with experience in the automobile industry. Moreover, they have been known to recruit well-experienced staff from other competitors, which again provides them with another strength as they are considered to be a "small firm deep in talent" (Ewing, 2021).

Another strength is the experience and the intellectual property the company gained by developing the Battista. The knowledge and patents gained during this process will provide a future benefit when the company develops other models.

### **Weaknesses**

There are weaknesses that Pininfarina should keep in mind. Automobili Pininfarina is a start-up company and therefore is facing many uncertainties. Even though they have support from the Mahindra Group, they are therefore very dependent on them. There is always the risk of the owner cutting funding, interfering in the strategic decisions of Automobili Pininfarina, or selling the company. Moreover, as for every start-up, liquidity can be a weakness depending on the Mahindra Groups' willingness to further invest. Especially since designing and producing a car is a very expensive process and a cash inflow through sales is only generated after years of the company already running and consuming resources. Even though the price of every sold unit is high, there will only be about 150 Battistas. Funding will need to be sufficient until the next generation of cars, which is planned to be sold in larger quantities, will be produced and sold in 2023-2024.

This leads to the next weakness - Automobili Pininfarina is planning to manage the production themselves, which is not one of their strengths as they are still at the beginning of the learning curve regarding the production of cars. The generation of cars after the Battista is going to be produced in larger quantities. This requires Automobili Pininfarina to switch from small quantity, handmade production to larger quantity standardized efficient production processes. Building a car production like this with little experience is very difficult. With EVs, it is less difficult than with ICEs, because fewer parts are needed and Tesla showed that it is possible to do so, but it is still a challenge that Automobili Pininfarina has to overcome. The Battista already showed the company how challenging car production can be and the first delivery to a customer was delayed from 2021 to the last quarter of 2022.

Another weakness is that the Pininfarina brand is well-known for its excellent car designs, but not yet as a producer of cars itself. Also, the name Pininfarina is well known among car enthusiasts, but aside from car enthusiasts the name Pininfarina might not be known and the company has yet to build a strong image as a luxury vehicle manufacturer in China.

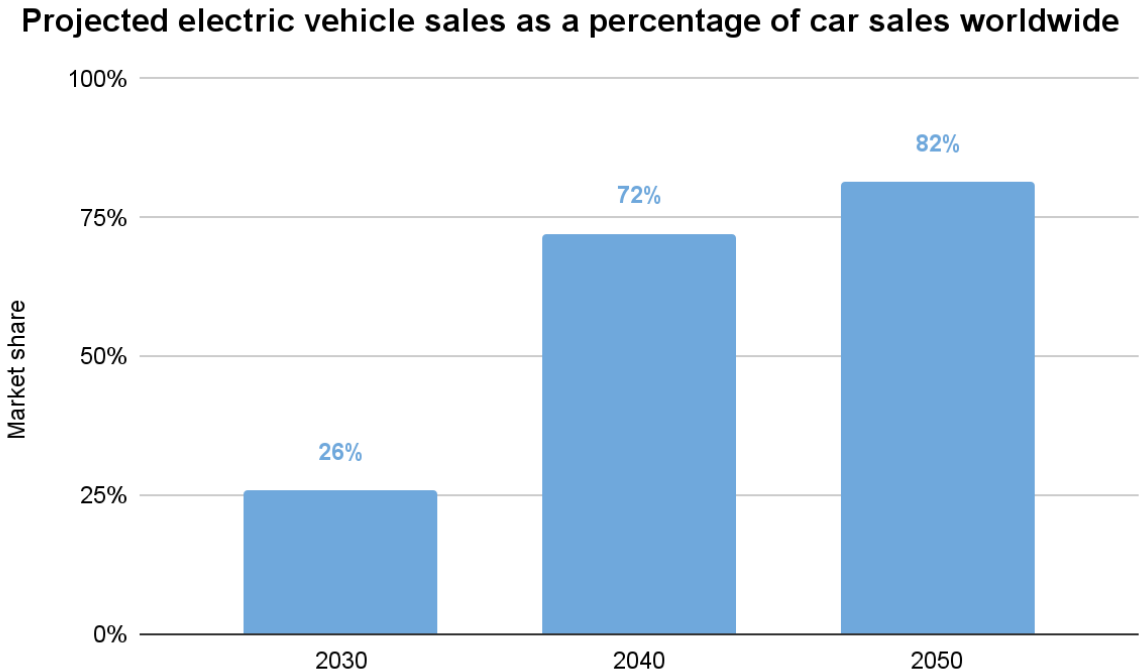
Another weakness of Automobili Pininfarina is that they rely heavily on technological partners such as Rimac Automobili. Rimac Automobili is a Croatian company that was founded in 2009 by Mate Rimac. The company is currently building some of the fastest fully electric vehicles in the world. Rimac provides the power- train for the Battista and sells the Rimac C2 with the same technological basis. Should Rimac decide to quit the partnership this would present a problem for Automobili Pininfarina. Porsche bought a 24% share of Rimac. With a changing ownership structure, new strategic decisions are possible.

Automobili Pininfarina has no experience when it comes to the Chinese market. Partnering with a local company could solve this problem and would also help with the weakness of not having relationships with local suppliers, government entities, and customers.

**Opportunities**

One of the most important opportunities for Automobili Pininfarina is the steadily rising demand for EVs. A study shows that the number of BEVs used worldwide has been increasing from 1.2 million in 2016 to 6.8 million vehicles in 2020 (Statista, 2021b). And this trend is only expected to continue. The size of the global market for EVs is expected to grow from \$171.26bn revenue in 2020 to \$725.14bn revenue in 2026 (Statista, 2021b). Moreover, electric vehicles are projected to make up 26% of car sales worldwide in 2030, 72.2% in 2040, and 81.5% in 2050 (Statista, 2020c).

Figure 5.3.: Projected electric vehicle sales



Adapted from Statista. (2020c). *Projected electric vehicle sales as a percentage of car sales worldwide between 2020 and 2050*. Retrieved June 10, 2021, from statista.com website: <https://www-statista-com.eu1.proxy.openathens.net/statistics/1202364/ev-global-market-share/>

For China, the 2020 Continental Mobility study found that 86% of Chinese consumers want an electric vehicle (Continental, 2021). This trend is supported by the rising awareness of environmental concerns. In China, 87% of respondents in a survey agreed or strongly agreed

that climate change is as serious a crisis as Covid-19 (Statista, 2020c). Moreover, many countries, including China, have now implemented governmental regulations supporting electromobility. All these circumstances provide an excellent opportunity for Automobili Pininfarina.

Another matter that Automobili Pininfarina is benefitting from is the fact that the luxury and premium car market is mostly independent of economic crises as stated in chapter 5.1.1.1.. Moreover, the target group of Automobili Pininfarina, which are financially wealthy and affluent people, is continuing to grow. Credit Suisse sees the number of millionaires worldwide growing by 40% until 2026 with China being the main driver of this growth.

Automobili Pininfarina is also benefitting from a few opportunities due to its product, the Battista, itself. There has been strong growth in the sales of EVs worldwide but very little growth in the high-luxury car segment. The Battista is currently one of the very few fully electric hypercars on the market. This and all the other very impressive performance facts have caused extensive press and media coverage of the Battista, which meant that Automobili Pininfarina did and does not have to invest in the same amount of marketing activities as other producers to generate great publicity for their company.

### **Threats**

Automobili Pininfarina is facing threats as well. Established car producers (e.g. Bentley, Rolls Royce) which have bigger financial budgets and more experience with the production of cars, pose a threat. Compared with Automobili Pininfarina their brands are well-known to customers and they have built customer loyalty and trust. Most of the companies do not produce a fully electric vehicle yet.

Another threat comes from new entrants to the car market. As stated in chapter 5.1.2., market entry barriers are lower than in the past 50 years. A challenge, however, is that the new market entrants have to build a brand that can compete with the worldwide established brands. Automobili Pininfarina has a unique position in this as it can sell its cars under the legendary name of Pininfarina.

Another threat is that luxury car customers are foreign to fully electric vehicles. The car market has been existing for a long time with a lot of established players and products that were traditionally built on internal combustion engines. Customers might be averse to the unknown. The price of Automobili Pininfarina's products limits the target group. Within this limited group of people, it might be harder to find customers that are open to trying new technology. Potential customers need to gain experience and confidence with electric vehicles. Growing Hybrid and EV sales might help in this matter.

Another threat is that the charging infrastructure is not equally developed in different areas of China. The term "range anxiety" was coined in recent years. Range anxiety is the fear of car

users that the range of an electric car might not be sufficient to complete their trips, thus requiring frequent time-consuming recharging or even being stranded with an empty battery due to a lack of charging infrastructure (Collins Dictionary, n.d.). The Battista has a range of 500 km on one charge. Since it is a luxury vehicle it will probably be used on joy rides and shorter trips than for long travel purposes. Therefore, the charging infrastructure might not be too relevant to customers.

## **6. Strategy Formulation**

### **6.1. Mission, Vision and Values**

A company's mission, vision, and values serve as guiding principles that help to define the company's purpose and stay focused on its goals. The mission statement describes the company's overall purpose and goals and is essential, since the lack of it may lead the company's short-term actions to be counterproductive to its long-term interests (David, David & David, 2014). The vision statement describes the company's long-term goals, and the values represent the beliefs and principles that the company derives its actions from. It is a trigger for employees to experience a shared sense of the company's ultimate goals (Carton, Murphy & Clark, 2014). Externally, they help the company to communicate its identity and values to its customers, partners, and other stakeholders, which can help to build trust and loyalty. In the following, I will outline the mission, vision, and values of Automobili Pininfarina for entering the Chinese market.

#### **Mission:**

To bring the finest sustainable luxury electric vehicles to the Chinese market, delivering exceptional performance and design while setting new standards in technology and customer experience.

#### **Vision:**

To be the leading luxury electric vehicle brand in China, renowned for its commitment to sustainability, innovation, and customer satisfaction.

#### **Values:**

- **Customer satisfaction:** Automobili Pininfarina is aware of the needs and desires of its customers and strives to deliver an exceptional ownership experience that exceeds their expectations.
- **Sustainability:** Automobili Pininfarina commits to creating products that are environmentally friendly and have a minimal impact on the planet.



- **Innovation:** Automobili Pininfarina constantly pushes the boundaries of what is possible in the world of luxury electric vehicles, using the latest technologies and design techniques to create products that are unique and ahead of their time.
- **Collaboration:** Automobili Pininfarina believes in the importance of collaboration and is committed to working with local partners and stakeholders to create mutually beneficial relationships.
- **Integrity:** Automobili Pininfarina is transparent in all its business practices, holds itself to the highest ethical standards, and complies with local and international laws and regulations.

Automobili Pininfarina's Mission, Vision, and Values will guide its efforts to enter the Chinese luxury electric vehicle market. By focusing on customer satisfaction, sustainability, innovation, collaboration, and integrity, the company will be well-positioned to build a strong brand and a loyal customer base in China.

## 6.2. Company Goals

It is important for Automobili Pininfarina to have clear goals when entering the Chinese market because it helps them to define and measure success, as well as to establish priorities and allocate resources. It also aids when communicating its plans and objectives to stakeholders, such as investors, employees, and customers. This will help Automobili Pininfarina to build trust and to secure the support it needs to achieve its goals. It will also help when determining the right entry mode for the company.

- **Building brand recognition and reputation:** One goal is to build brand recognition and reputation in the Chinese market. This involves establishing a strong presence through marketing and promotion efforts, as well as delivering high-quality products and exceptional customer service.
- **Increasing sales and market share:** Another goal is to increase sales and market share in the Chinese luxury vehicle market. This involves targeting specific segments of the market such as high-end consumers and wealthy early adopters of luxury electric vehicles in order to drive sales.
- **Establishing a reliable logistics process:** In order to efficiently serve the Chinese market, Automobili Pininfarina should establish a strong logistics process for the vehicles and parts being shipped from the manufacturing plant in Italy.
- **Building relationships with key stakeholders:** Building strong relationships with key stakeholders should be a key goal of the company's plan. These relationships can help to support the company's operations and growth in the market. Especially in the

Chinese market, it is important to build long-term relationships as this is part of Chinese business culture.

- **Achieving financial targets:** Another goal of Automobili Pininfarina should be to achieve specific financial targets, such as increasing revenue through increased sales.

## **7. Marketing Plan**

### **7.1. Target Market Definition**

Demographic segmentation is a marketing strategy that allows companies to better understand and meet the needs of specific groups of consumers (Kotler and Keller, 2006). As it is impossible for a company to meet the needs of everyone and also does not make sense in terms of strategy, the target market will in the following be defined by breaking the market into smaller segments according to different criteria (demographic, geographic, and psychographic).

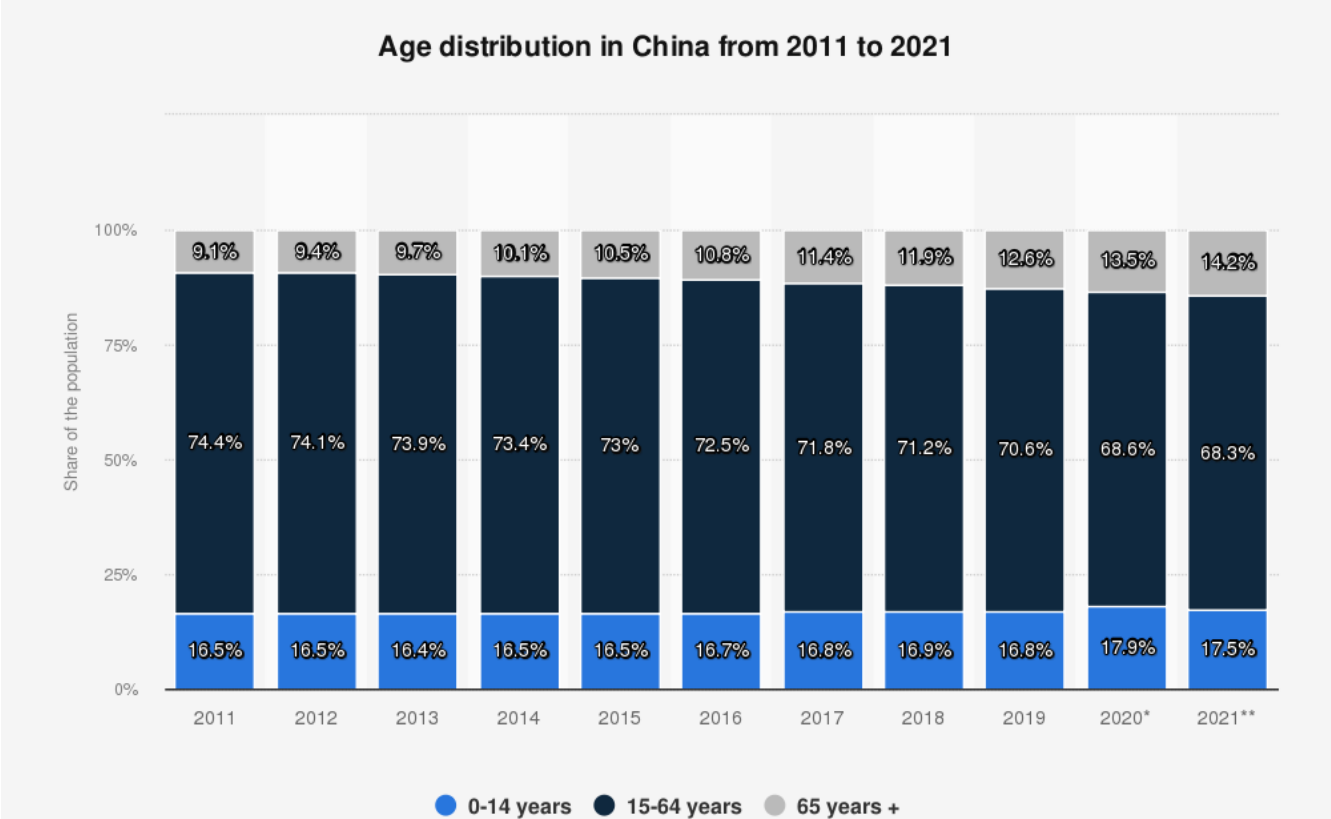
#### **7.1.1. Demographic Segmentation and Targeting**

Demographic segmentation is the process of dividing the market into groups based on certain characteristics such as age, gender, income, and education.

#### **Age:**

As can be seen from figure 7.1., the age distribution in China has been gradually shifting towards an older demographic during the last decade (Statista, 2022b). This is mainly due to low birth rates, which have caused the age group of 0–14-year-olds to remain at about 17 percent since 2011, while the older age groups of 65 years and over have seen a growth of around 5 percentage points (Statista, 2022b).

Figure 7.1.: Age distribution in China



Source: Statista, 2022b.

In terms of Automobili Pininfarina, they should focus on the Chinese post-1980s generation that grew up in times when China's economy emerged. They are now at the height of their career and income and like to spend on luxury goods and traveling to show their individuality and success. The following post-1990s generation is the upcoming generation and also one for Automobili Pininfarina to look out for when aiming to sell luxury products in China (Kim, Luan & Zipser, 2019).

**Gender:**

While for Automobili Pininfarina, gender should play a secondary role in comparison to other factors such as income, their target consumer is more likely to be male as China has the world's most skewed gender ratio at birth. There are around 110 males born for every 100 females as of 2021, resulting in about 34 million more men than women (National Bureau of Statistics of China, 2022b). This is likely to be due to the past one-child policy, which was introduced in 1979 to limit the population of the country and the country's traditional preference for male children.

**Income:**

Growing inequality is considered one of the greatest economic, social, and political challenges to many countries, especially emerging ones such as China (Statista, 2022a). Although the Gini index of China, which analyzes income inequality, has grown sharply in recent years, parts of China’s society have also grown more and more affluent (Statista, 2022a). As Automobili Pininfarina operates in the luxury market, it will target only those individuals in the high-income bracket of society.

Moreover, China has a large income gap between urban and rural areas. According to the National Bureau of Statistics of China (2022a), in 2021, the average disposable income per capita of urban households was more than double the number of rural households. Thus, Automobili Pininfarina’s target customers will most likely live in urban areas in China.

**Education:**

According to a study by Boshara, Emmons, William and Noeth (2015), it can generally be assumed that people with more education earn higher incomes (see figure 7.2.). Due to this strong relationship between education and income, it is important for Automobili Pininfarina to analyze the education level of the Chinese market.

Figure 7.2.: Family Financial Outcomes Based on Education

Family Financial Outcomes Based on Education					
Education*	Percentage of families	Median income (2013)	Median wealth (2013)	Wealth-to-income ratio**	Millionaires (family wealth)
No high school diploma	12%	\$22,320	\$37,766	1.43	1 in 110
High school diploma	50%	\$41,190	\$95,072	2.15	1 in 18
Two- or four-year degree	25%	\$76,293	\$273,488	3.45	1 in 4.6
Advanced degree	13%	\$116,265	\$689,100	5.58	1 in 2.6

NOTE: \*Based on the education level of a family headed by someone 40 years of age or older. \*\*This ratio shows how much wealth each group has per dollar of income. For example, the ratio for families without a high school degree was 1.43, which means that, on average, for every \$1 of income there was \$1.43 of wealth. The ratio is a measure of how efficient people are at turning income into wealth.

Source: Boshara, Emmons, William and Noeth, 2015.

According to the Best Countries Report, China has a relatively high level of education, which is beneficial for Automobili Pininfarina (World Population Review, 2023).

In conclusion, Automobili Pininfarina’s demographic target segment will include middle-aged, mostly male, Chinese individuals with a high level of income and education.

### 7.1.2. Geographic Segmentation and Targeting

Geographic segmentation divides a market into groups based on their geographic location. As stated above, there is an income inequality between rural and urban areas in China with people living in urban areas having a much higher disposable income. As these consumers will be more likely to be interested in luxury products, Automobili Pininfarina will make urban regions their target. The provinces in China's east bordering the Chinese sea have a higher buying power. Specifically, Beijing, Shanghai, Hong Kong, Shenzhen, and Guangzhou are home to many wealthy people and should be targeted first (Statista, 2022e).

### 7.1.3. Psychographic Segmentation and Targeting

Psychographic segmentation further specifies the target segment based on people's attitudes, values, lifestyles, and interests. In the case of Automobili Pininfarina, the following segments of the Chinese market would be worth pursuing:

- **High-income individuals:** Consumers which have a high disposable income, that often have a taste for exclusivity and high-end products, which is in line with Automobili Pininfarina's brand positioning.
- **Status seekers:** These individuals purchase luxury goods and services in order to enhance their social status and to showcase their wealth and success to others. Thus, they may be attracted to luxury brands that are well known and have a strong reputation. Therefore, it is important for Automobili Pininfarina to continuously build its brand reputation in the Chinese market.
- **Experiential buyers:** These consumers view luxury goods as a way to create unique and memorable experiences and may be interested in fine dining, exclusive events, and luxury travel. Automobili Pininfarina should keep this in mind when designing its promotion strategy (see chapter 7.2.4.).
- **Modern traditionalists:** These consumers have a high appreciation for classic and timeless luxury goods. They prefer traditional luxury brands and products over new brands without a strong heritage. In order to cater to these individuals, it is important for Automobili Pininfarina to promote its long history of car designing and its strong heritage.
- **Innovative enthusiasts:** These consumers on the other hand are interested in new and unique luxury goods and brands. They are attracted to emerging luxury brands and are more open to trying new and unconventional products, which is beneficial for Automobili Pininfarina as they have built the first electric hypercar with the Battista.
- **Conscious consumers:** These consumers are aware of environmental and ethical concerns with their luxury consumption and look for brands that align with their values and beliefs. As Automobili Pininfarina solely produces electric and therefore more

environmentally friendly products, they will likely be an attractive brand for these consumers.

#### 7.1.4. Target Personas Definition

Automobili Pininfarina's target persona is **Yun**, a 45-year-old successful and wealthy businessman living in Shanghai. He has always been interested in luxury goods as it is a way for him to showcase his wealth and success to others. He is always on the lookout for the next best thing in order to differentiate himself further from others in his demographic by owning products, which others have not yet acquired. For those he is willing to pay a premium, but with that comes a high expectation regarding the level of quality and service that the companies need to provide.

He is increasingly becoming environmentally conscious and has been looking for ways to reduce his carbon footprint. He has recently been considering the purchase of an electric vehicle but has been hesitant as he was not sure if he would be able to find a vehicle that met his standards for luxury, quality, and performance.

## 7.2. Marketing Mix

Defining the marketing mix is a crucial part of building the marketing and sales strategy. According to Philip Kotler, the "Marketing Mix is the set of controllable variables that the firm can use to influence the buyer's response" (Kotler and Keller, 2006). The controllable variables in this context are the 7 P's product, price, place, promotion, process, physical evidence, and people.

### 7.2.1. Product

The first product the company offers is the Battista, which is a luxury electric sports car.

Figure 7.3.: The Battista



Source: Autodino, n.d.

The Battista is named after the famous designer Battista Pininfarina and it is the first car ever to be built by the company. It is an all-wheel drive with a separate electric engine on each of the wheels, which allows for a perfect distribution of torque in any situation. The combined output of the engines amounts to 1900 horsepower. It has one of the biggest batteries to be built into a car, which produces 120kWh and supplies a range of 500 km with a full charge by the Worldwide harmonized Light vehicles Test Procedure (WLTP) standard. It produces 2300 Newton meters of torque and accelerates on the level of a formula 1 car from 0 to 100 km/h in under 2 seconds, from 0 to 200 km/h in under 6 seconds, and from 0 to 300 km/h in under 12 seconds. The top speed is above 400 km/h. It has a carbon fiber body and weighs around 2,2 metric tons. The Battista has a sophisticated infotainment system and charging services through the partner ChargePoint are included in the sales price of the car.

All of Automobili Pininfarina's cars are produced in Italy. The Battista is built by a team of 10 employees by hand in a 2.300 square meter big factory in the Italian town of Cambiano. Each one of the 150 Battista will take up to 1.340 hours of work. Only the painting work will take 3-4 weeks on every car. The vehicles will be highly individualized. Automobili Pininfarina offers a Lounge in Italy where customers can discuss their wishes with a company representative. For the main exterior color, there are 28 options, which were inspired by the Piedmont region in Italy where the cars are built. Through exterior color, design accents, rims, and other options,

there are 13.9 trillion combination options only in the exterior. Another 128 million different combinations exist in the interior (Wittich, Lang, Harloff & Stegmaier, 2022).

Figure 7.4.: The Battista's interior



Source: Wittich, et al., 2022.

The first deliveries to customers began taking place in the fourth quarter of 2022. The first of the 150 vehicles went to a customer in the USA.

Automobili Pininfarina will generate after-sales revenue through three different programs that the customer can choose from: "Eccellenza" is a contract that includes services for up to 10 years. "Futura" includes an extended warranty period of 7 years on top of the regular three years for battery and power train. "Eterna" includes a set of spare parts for the body that are already produced with the production of the car (Wittich, et al., 2022).

With the Battista, the company plans to build a strong brand image around the world. The company will then use this image and produce other fully electric cars in higher quantities at a lower price but still in the luxury segment. This will include an SUV.



Figure 7.5.: The Battista in front of covered future models



Source: McCann, 2019.

#### 7.2.2. Price

It is important for the price to be consistent with the brand's image and positioning. The price of the limited Battista lies between 1,75 and 2,2 million euros in Europe. There is an Anniversario Edition of the Battista which is limited to 5 cars at a price of around 2,6 million euros. The SUV will roughly be at the price level of a Bentley Bentayga which costs 220'000 Euros on average. Due to high luxury and import taxes, the cars will be more expensive to the Chinese consumer. In the luxury segment price sensitivity is low. If Automobili Pininfarina manages to build an exclusive European luxury brand image in China, the pricing strategy of luxury prices will not scare Chinese consumers but might be an argument that draws them to the brand.

#### 7.2.3. Place

The place component of the marketing mix refers to the channels through which a product is made available to customers. In the case of Automobili Pininfarina in China, this will include dealerships, online platforms as well as shows and events.

Currently, customers can travel to Turin, Italy to individualize and order their vehicle in the company's lounge. As stated previously, Automobili Pininfarina should open dealerships in the major cities of Beijing, Shanghai, Hong Kong, Shenzhen, and Guangzhou. Like the lounge in

Turin, there should be a strong focus on customer experience and a welcoming and luxurious environment at the dealerships. At the dealerships, the customers can examine showcars, do test drives, configure and order their vehicles and have after-sales services done. The company could draw inspiration from the Competitor NIO, which has opened 90 “NIO houses” around the world. These are not only dealerships but supply an area to work, yoga classes, and other small events in order to put a focus on the customer experience and a positive association with the brand. In addition to dealerships, Automobili Pininfarina could have showrooms in the city centers with the purpose of getting in touch with potential customers and exhibiting the cars. This could be in luxury shopping areas like the Sanlitun area in the Chaoyang District in Beijing or in luxury hotels like the Mandarin Oriental in Hong Kong. Another channel through which the product will be made available to customers is online. This channel is becoming increasingly important worldwide and specifically Chinese customers are open to it. The e-commerce turnover in China is larger than in any other country in the world and still doubles that of the second place, the USA (Statista, 2022d). Automobili Pininfarina should have a perfectly working website, and possibly an application that allows customers to book test drives, configure vehicles as well as purchase cars and accessories online. The online presence will allow Automobili Pininfarina to reach a larger customer base, particularly in Tier 2 and Tier 3 cities, where dealerships and showrooms will not be available.

#### 7.2.4. Promotion

The promotion part of the marketing mix refers to the various methods used to promote the product or services of a company to potential customers. These could include public relations, advertising, digital marketing, and events marketing. For Automobili Pininfarina, all of these will be relevant in order to create an omnichannel marketing strategy.

In terms of public relations, Automobili Pininfarina has the huge advantage that their first car, the Battista, has generated a lot of media attention and free publicity due to its record-breaking numbers and its spectacular design. This definitely helps the brand to become known worldwide. As a next step, they should focus on gaining more coverage in Chinese media outlets by for instance giving PR interviews.

When it comes to advertising, they should consider creating billboard campaigns in the above-mentioned major cities of Beijing, Shanghai, Hong Kong, Shenzhen, and Guangzhou. These billboards should ideally be placed in highly frequented places such as traffic hubs or in areas where many wealthy individuals are located. They could consider making use of the 3D billboards in order to create a very eye-catching campaign that stands out from the crowd and almost makes the product come alive on the screen. Moreover, they could create a campaign of ads in magazines that are typically read by wealthy individuals.

In terms of digital marketing, Automobili Pininfarina should consider social media channels like WeChat, Weibo, Douyin, and Xiaohongshu. Many luxury brands such as Gucci and Armani are already implementing WeChat accounts, ads on the moments feed, or mini programs in WeChat. The advantage of this is that users can have a very immersive experience with the brand if done right. With Xiaohongshu being a hybrid between Pinterest and Instagram and a cross-border shopping platform with blogging capabilities, many Chinese millennials are increasingly turning to influencers on the app to inspire their luxury shopping. Thus, Automobili Pininfarina should also consider cooperating with an influencer on the app.

Another important aspect is event marketing. This could mean participating in industry events such as car shows or races but should not be limited to that. As stated in chapter 7.1.3, luxury customers are often experiential buyers, who place a lot of value on luxury travel, fine dining, and exclusive events. A great example of how a brand can create an immersive brand experience for its consumers in a different way is Chanel's pop-up, the Coco Cafe in Hong Kong. In addition to previewing a new make-up product, customers received a free drink and a free gift (Fitzgerald, 2017). Plus, the Coco Cafe had a beauty photo booth for visitors to share their visit online (Fitzgerald, 2017). The Cafe was a major social media success, with the hashtag being used more than 50'000 times on Instagram alone. Similarly, Automobili Pininfarina could think of creating immersive pop-up experiences.

Moreover, Automobili Pininfarina should make use of special occasions such as Single's Day, the Chinese New Year, or Golden Week and create dedicated campaigns for these occasions.

#### 7.2.5. People

Especially in the luxury segment customers expect a perfect experience. The people that represent the company can make all the difference when it comes to the customer experience. Therefore, Automobili Pininfarina needs to hire talented and professional service and sales staff that ideally are experienced in luxury car sales. This staff then needs to be trained in the company philosophy and the products. In order to retain talent, Automobili Pininfarina needs to be perceived as an attractive employer. The brand image will help, but other benefits need to be offered. When it comes to sales staff Automobili Pininfarina might want to try to employ people that currently work for other luxury car makers. In the luxury segment and especially in China it is important to have good relationships with business partners and customers. Therefore, hiring sales staff that already brings a network of potential customers with them might be a good idea.

#### 7.2.6. Process

The processes of a company can contribute a large amount to customer satisfaction. Only when processes are defined and continually improved can Automobili Pininfarina make sure

that, for example, customers, that booked a test drive arrive at a dealership and the vehicle is ready for them. The sales process should also be well defined in order for the salesperson not to forget to obtain customer data or mention all available options or warranty packages. Therefore, all the processes that the company already uses in Europe should be adapted to the local needs, taught, and implemented.

#### 7.2.7. Physical Evidence

The physical evidence consciously and unconsciously builds the image of the company in the customer's head. Dealerships all need to be designed with the same corporate identity. The interior needs to be luxurious and of the highest quality as the company sells luxurious goods. The spaces to present the vehicles should be as large as the locations make it possible. Especially in dense cities like Hong Kong or Beijing, spacious rooms represent luxury as space is very expensive. The presented vehicles need to be in perfect condition all the time and should be cleaned throughout the day.

## 8. Implementation Plan

### 8.1. Determination of the market entry mode

Based on the internal and external analysis as well as the literature review, the market entry modes for Automobili Pininfarina's endeavor to enter the Chinese market will be reviewed in the following.

Automobili Pininfarina has a variety of market entry modes (chapter 4.2) to choose from. Each mode has its own advantages and disadvantages, and the right choice depends on the company's resources and goals. As Automobili Pininfarina was only founded in 2018 and delivered its first vehicle to a customer at the end of 2022, the company is still a start-up without large financial and human resources. Judy Zhu, the head of the project to enter China is a perfect match for the position, considering her career with other luxury car brands, such as Porsche, and her professional experience with market research and consulting projects. Her being accustomed to Chinese culture and language is a big advantage as well. Nevertheless, the company only has about 108 employees including production staff.

The entry mode of exporting would allow Automobili Pininfarina to sell its products in the Chinese market without having to establish a physical presence in the country. This would not strain the financial and human resources. Exporting might be a suitable mode of entry for the very early stage of bringing a dozen units of the Battista to the market, as customers might come to Italy to specify and order the vehicle and the company offers an international "flying doctor" service. However, as the company aims to produce larger amounts of cars soon and really gain a foothold in the biggest luxury car market in the world, exporting will not be a

sufficient mode of entry in the long run. Exporting is not effective in building strong relationships with local partners and suppliers and gaining deep insights into the market.

An acquisition might be challenging as it is very expensive and finding a suitable company that is a luxury car brand, has the right infrastructure in terms of dealerships, and is also willing to sell in a growing market is very difficult. Companies that come into question might not be profitable due to organizational or other inefficiencies. Also, it takes a lot of time and effort to align the acquired company with Automobili Pininfarina's values and corporate identity in terms of physical evidence.

For a greenfield investment, Automobili Pininfarina does not have the financial resources. It is backed by the Indian Mahindra Group, but especially as Automobili Pininfarina pushes forward not only in China but in many markets around the world simultaneously, the Mahindra Group will not be willing to invest the required amounts. Also, Automobili Pininfarina does not have the manpower to build a car brand with dealerships and an online presence in China from scratch by itself. Rules and regulations would also have to be learned by this new entity in a resource and time-consuming process.

Licensing and franchising are not suitable as an overall market entry strategy as the cars will be manufactured in a detail-oriented and time-consuming process in Italy, in line with the company's luxury strategy. Also, it is very important to have control over the customer experience in China as a luxurious experience is essential to the company's success. The company should consider franchising as a strategy after the market entry has taken place, the company has built its processes and networks and understands the customer's needs and government regulations better. After having built this basis and one or two own dealerships in China, Automobili Pininfarina could use franchising for further dealerships. Investors could open these under the name of Automobili Pininfarina, having their processes and customer satisfaction levels closely monitored. These franchisees could acquire the vehicles below market price from Automobili Pininfarina and sell them to their customers. Automobili Pininfarina could determine the franchisee's margins based on the annual performance.

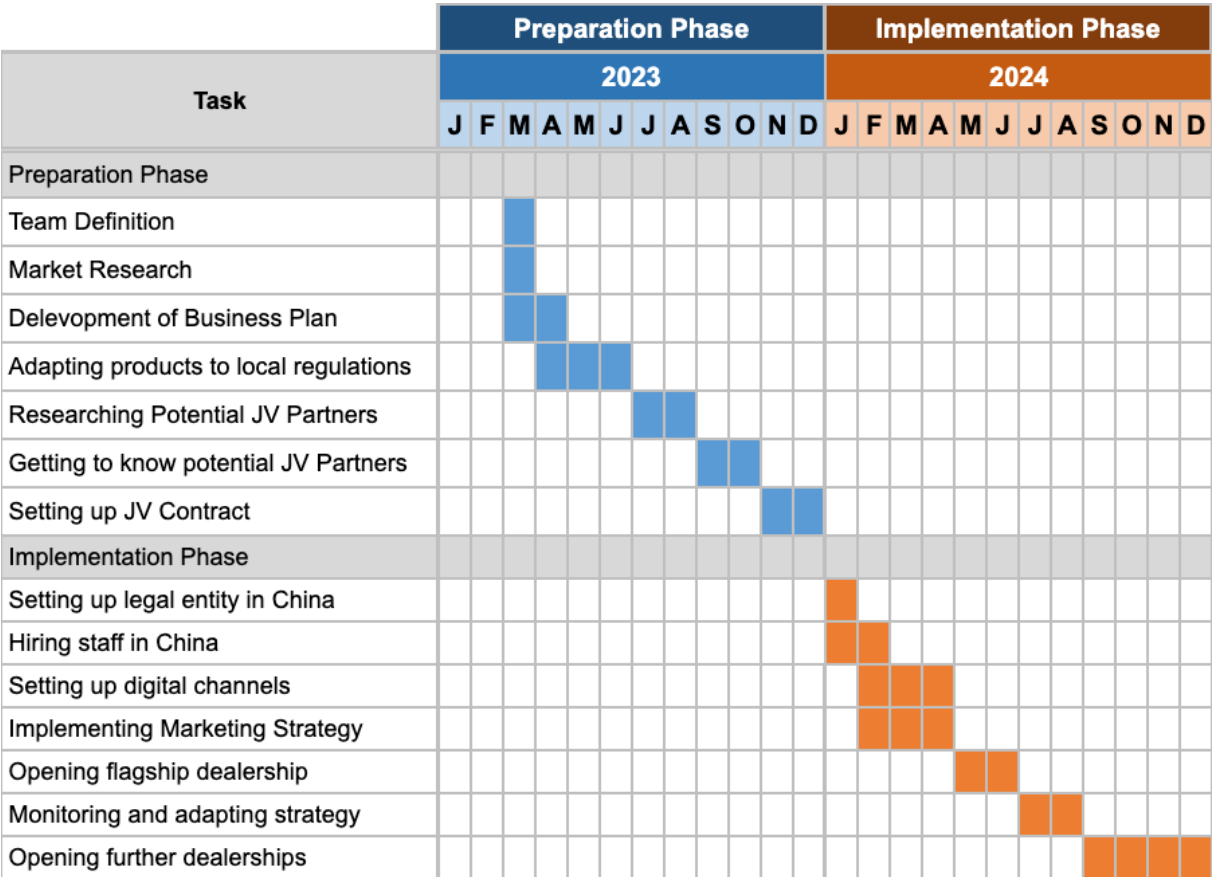
In accordance with the company's resources and the long-term opportunities of the Chinese market, the most appropriate option is an equity joint venture with a Chinese partner. The equity joint venture is preferable over a contractual joint venture, as contractual joint ventures are regarded as less stable and not suitable for the purpose of long-term presence in a new market. A joint venture allows the brand to gain access to the Chinese market while also benefiting from the local partner's knowledge of the market and established relationships. The local partner can help the brand navigate the complexities of the Chinese market, including regulations, cultural differences, and consumer preferences. Until recently Chinese regulation required foreign companies to enter into joint ventures with local firms in order to operate in the country. Even though these regulations are being lifted the joint ventures of the big

international automobile brands are still in place without big shifts, which implies that these models work. This approach allows the car brand to share the costs and risks associated with entering the market, which suits Pininfarina's financial situation.

**8.2. Timeplan**

For the business endeavor to be successful it helps to have a timeplan for the necessary steps. In the following, this is done through a Gantt Chart, which is a project management tool.

Figure 8.1.: Gantt Chart of Automobili Pininfarina's project to enter the Chinese market



Source: Made by author

**9. Financial Analysis**

The financial analysis of this business plan only examines the Chinese entity that will be created as a joint venture of Automobili Pininfarina and a Chinese partner. It does not take into consideration the years 2018 until 2023 when Automobili Pininfarina GmbH only operated outside of China and had the cost of developing the vehicles.

### 9.1. Sales Projection

The company's aim is to sell high-end luxury fully electric vehicles to the Chinese market. Their cars will still be produced in Italy and shipped to China so in this case there will be a purchasing price for the Chinese entity instead of production cost. As the demand for SUVs is high and they are very profitable products the first car to follow the Battista will be an SUV. The pricing will be comparable to that of a Bentley Bentayga SUV. After that, most likely a limousine will follow. For the sales projection of the SUV, we can look at the Bentayga Sales in China. Bentley sold about 1.460 units of the Bentayga. A limiting factor is the production ramp-up, which only allows lower production numbers in the beginning.

Figure 9.1.: Sales Projection in vehicle units for 2024 to 2026

Sales Projection (units)	2024	2025	2026
Battista	5	6	8
SUV (tbd)	150	300	500
Limousine (tbd)	-	150	300
Total	155	456	808

Source: Made by author

### 9.2. Revenue Projection

The Battista will cost 2.000.000 Euro on average. The SUV will be priced slightly higher than the Bentley Bentayga (average 220.000 Euro in 2022) at 230.000 Euro on average. Automobili Pininfarina limousine will be priced at around 220.000 Euro. After-sales services per vehicle can be expected to be at 10.000 Euro per year for the Battista and 5.000 Euro for the other vehicles as compared to the cost of buying the cost of maintaining a fully electric vehicle is relatively low, but the company still operates in the luxury segment.

Figure 9.2.: Revenue Projection in Euro for 2024 to 2026

Revenue Projection (EUR)	2024	2025	2026
Battista	10.000.000	12.000.000	16.000.000
SUV (tbd)	34.500.000	69.000.000	115.000.000
Limousine (tbd)	-	33.000.000	66.000.000
After sales	800.000	2.310.000	4.080.000
Total	44.500.000	114.000.000	197.000.000

Source: Made by author

### **9.3. Cash Flow Statement**

For the cash flow statement, the following assumptions were made: The new Chinese entity will buy the vehicles from Automobili Pininfarina GmbH, which produces the vehicles. The Automobili Pininfarina GmbH will give a discount to the Chinese entity which results in a wholesale price that lies 16% below the sales price to the customer. This gives the Chinese entity 16% of the sales revenues to cover their cost and make a profit. The rent for a flagship dealership is assumed to be 50.000 Euros per month and is higher than for a regular dealership with 30.000 Euros per month as its location has to be very prominent. The flagship dealership will be the first to be opened in Q2-2024. Marketing and event spending will peak in Q1 for the Chinese New Year and in Q4 for Single's day on the 11th of November as these are major sales events in China. The cost of human resources rises continuously with the opening of further dealerships. The cost for equipment of dealerships is estimated to lie at 200.000 Euros per quarter as new dealerships open and continuous investments in existing dealerships are required to have a luxurious interior. Legal costs are initially high for the initial setup of the Chinese entity. During the year they peak in Q1 as the annual accounts need to be done and examined by external auditors.



Figure 9.3.: Cash Flow Statement in thousand Euros 2024 to 2026

Cash Flow Statement	2024				2025				2026			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Income</b>												
Income from sales operation	11.125.000	11.125.000	11.125.000	11.125.000	28.500.000	28.500.000	28.500.000	28.500.000	49.250.000	49.250.000	49.250.000	49.250.000
<b>Total Income</b>	<b>11.125.000</b>	<b>11.125.000</b>	<b>11.125.000</b>	<b>11.125.000</b>	<b>28.500.000</b>	<b>28.500.000</b>	<b>28.500.000</b>	<b>28.500.000</b>	<b>49.250.000</b>	<b>49.250.000</b>	<b>49.250.000</b>	<b>49.250.000</b>
<b>Expenses</b>												
Purchasing cost of cars	9.345.000	9.345.000	9.345.000	9.345.000	23.940.000	23.940.000	23.940.000	23.940.000	41.370.000	41.370.000	41.370.000	41.370.000
Marketing/events	500.000	300.000	150.000	300.000	200.000	150.000	150.000	300.000	200.000	150.000	150.000	300.000
Human Resources	300.000	540.000	600.000	600.000	750.000	900.000	900.000	1.050.000	1.050.000	1.300.000	1.300.000	1.450.000
Rent Office	30.000	30.000	30.000	30.000	31.000	31.000	31.000	31.000	32.500	32.500	32.500	32.500
Rent Dealership(s)	-	150.000	195.000	240.000	285.000	330.000	375.000	420.000	465.000	510.000	555.000	600.000
Equipment Office	100.000	10.000	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500
Equipment Dealership(s)	-	300.000	200.000	200.000	200.000	200.000	200.000	200.000	200.000	200.000	200.000	200.000
Legal/Accounting	100.000	10.000	10.000	5.000	20.000	12.000	12.000	12.000	25.000	14.000	14.000	14.000
<b>Total Expenses</b>	<b>10.375.000</b>	<b>10.685.000</b>	<b>10.532.500</b>	<b>10.722.500</b>	<b>25.428.500</b>	<b>25.565.500</b>	<b>25.610.500</b>	<b>25.955.500</b>	<b>43.345.000</b>	<b>43.579.000</b>	<b>43.624.000</b>	<b>43.969.000</b>
Opening Balance	0	750.000	1.190.000	1.782.500	2.185.000	5.256.500	8.191.000	11.080.500	13.625.000	19.530.000	25.201.000	30.827.000
Income	11.125.000	11.125.000	11.125.000	11.125.000	28.500.000	28.500.000	28.500.000	28.500.000	49.250.000	49.250.000	49.250.000	49.250.000
Expenses	10.375.000	10.685.000	10.532.500	10.722.500	25.428.500	25.565.500	25.610.500	25.955.500	43.345.000	43.579.000	43.624.000	43.969.000
Ending Cash Balance	750.000	1.190.000	1.782.500	2.185.000	5.256.500	8.191.000	11.080.500	13.625.000	19.530.000	25.201.000	30.827.000	36.108.000

Source: Made by author

## **10. Conclusion**

This thesis developed a business plan for Automobili Pininfarina to enter the Chinese market. The market research has shown that there is a strong demand for luxury electric vehicles in China. With a growing group of very wealthy individuals and the Chinese willingness to spend on goods that show their wealth, the demand will most likely grow in the years to come. Pininfarina should not miss out on its opportunities in the largest car market of the world and follow its plan to enter the Chinese market. The analysis has shown that there is only very little competition in the high-end luxury segment of fully electric vehicles and Automobili Pininfarina can build on a name that is known to automobile enthusiasts, which further speaks for an entry to the market. As the company is still in the start-up phase and resources are limited, it is advisable to choose the entry mode of a joint venture with a Chinese partner. The local partner can contribute necessary knowledge on the market, customer demands, and existing relationships with other stakeholders, like government entities. This will ensure a smooth and efficient entry into the market. Further research should be done on how the right partner for the joint venture should be selected, how the legal entity should be set up, and the regulatory requirements for selling electric road cars in China. With a solid business plan and a clear commitment to delivering the highest quality luxury products and services, Automobili Pininfarina can become a successful company in the Chinese market.

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