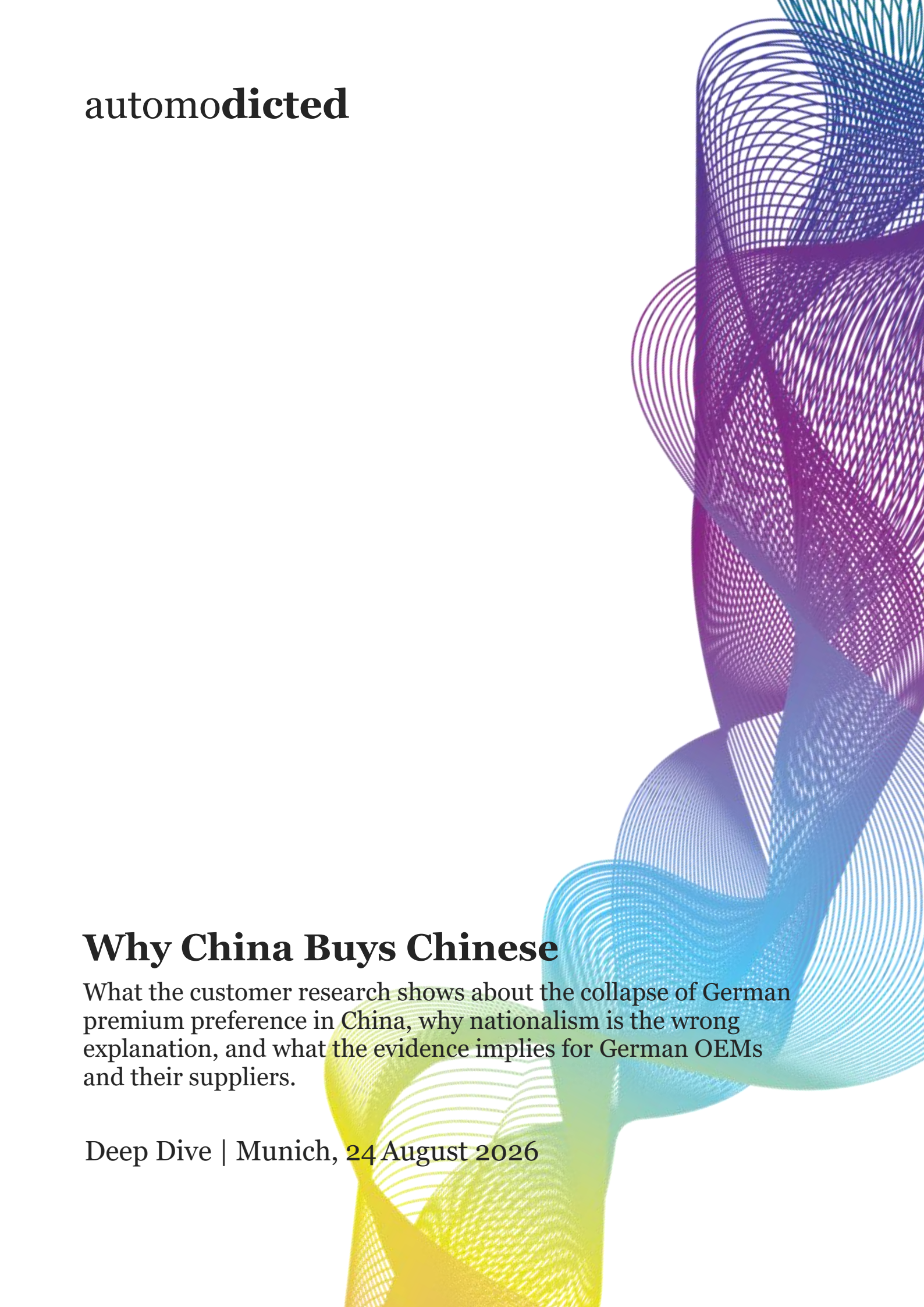




automodicted

Why China Buys Chinese

What the customer research shows about the collapse of German premium preference in China, why nationalism is the wrong explanation, and what the evidence implies for German OEMs and their suppliers.

Deep Dive | Munich, 24 August 2026

Management summary

Chinese customers did not stop buying German cars because they suddenly became patriotic (“guochao”). They stopped because the attributes that decide a car purchase in China changed, and on the new attributes the domestic brands are measurably ahead. That is the single most important finding in the customer research, and it is consistent across every independent study reviewed here.

Eight findings

- 1. The market moved, not just the mood.** Chinese brand share of passenger vehicle wholesales rose from 38.4% in 2020 to 69.5% in 2025, and reached 71.8% in the first half of 2026 (CAAM). BMW, Mercedes-Benz and Audi, on the other hand, lost roughly 260,000 units of China volume in 2025 alone, about one car in eight of their combined 2024 volume, and the decline has steepened every year since 2023.
- 2. Brand stopped deciding EV purchases.** A trusted car brand is the number one purchase factor for buyers of combustion cars (75%) but falls to fifth for EV buyers (48%), behind range and charging, static experience, running cost, and dynamic experience. German brand equity was built in a decision frame that no longer governs most of the market.
- 3. Defection is stated as a technology decision.** Owners of premium Chinese EVs give autonomous driving performance (69%), smart cockpit performance (62%) and a native EV platform (52%) as their reasons for choosing a Chinese brand over a German premium brand. Only 44% cite the absence of added value in German branding, and that answer is about brand irrelevance, not brand hostility.
- 4. Measured quality converged and then inverted.** In the J.D. Power 2026 China Initial Quality Study, Chinese domestic brands scored 218 problems per 100 vehicles against 219 for international premium brands and 224 for international mass market brands, the first time domestic brands have led. The Chinese quality body CACSI finds the same pattern in new energy vehicles, where domestic brands report 16 fewer smart cockpit faults per 100 vehicles than joint venture brands.
- 5. Consideration became one-directional.** The share of German premium brand buyers who had also considered a premium Chinese EV brand rose from 7% to 40% in a single year. The reverse flow moved only from 12% to 21%. The asymmetry is findings 2 and 3 acting together. Buyers of German brands acquired a reason to look across, because the technology they now want sits on the other side. Buyers of premium Chinese EVs acquired no equivalent reason, because the attributes German brands still lead on are no longer the ones that decide. German brands enter this competition as the challenged party.
- 6. The price premium has gone, and discounting has replaced product as the reason to buy German.** Half of respondents will pay nothing extra for a multinational premium EV over a Chinese one, and only 3% would pay more than a 20% premium. Among buyers who did choose a German premium EV, attractive pricing due to discounts rose from the fourth to the second most cited reason in one year. Price has displaced image as the reason to buy German, which is the worst possible trade, since image carried the margin and price does not.
- 7. Nationalism is a weaker explanation than the industry assumes.** Asked what defines a premium car brand, Chinese respondents ranked “originated from developed nations such as the EU, US or Japan” last of fourteen attributes, at 53% against 83% for brand heritage. On its own that item cannot separate indifference from rejection driven by guochao, the “national wave” of consumer preference for Chinese brands and cultural products, since both predict a low score. The evidence that can discriminate points to indifference: Chinese domestic brand preference is 40%, level with Germany and far below Japan at 78%, and German premium buyers still cite trust in quality as their top purchase reason at 81%, which is not the answer of a market that stigmatises foreign ownership. Guochao is real, but in automotive it reads as a permission structure rather than a purchase driver.
- 8. Loyalty, not conquest, is the acute problem.** Owner repurchase intent fell below 18% in 2025 for all three of BMW, Mercedes-Benz and Audi, known collectively in the Chinese market as BBA, meaning more than four in five owners intend to leave the brand at their next purchase. Where they go is visible in the intake of the brands taking them: among buyers intending an AITO as their next car, 36.8% currently drive a BBA; for Li

Auto the figure is 27.2% and for Tesla 24.2%. These shares describe the composition of each brand's incoming demand, not the split of BBA departures, but three of the leading challengers each draw roughly a quarter to more than a third of their intake from the same three German brands. Owners leave for identifiable reasons: the technology gap is experienced daily in the cockpit rather than read about in tests, the German electric line-up offers an existing owner no upgrade path that preserves what the badge once stood for, and official price cuts destroy the resale value of the cars loyal customers already own, which makes loyalty the most expensive option on the table.

The uncomfortable implication

Three conclusions follow that European incumbents generally resist.

- › **First, discounting is counterproductive in a specific and measurable way.** It is not merely inefficient, though it is that: the measured net stimulus of the price war was 3.6% in 2024 against 10.8% for faster technology cycles, and by the 2026 wave the technology effect had risen to 20.7% while the price war had turned net negative on sentiment, at 22.2% viewing it negatively against 16.5% positively. The deeper harm runs through three channels. Firstly, every official price cut lowers the resale value of the cars existing owners already hold, so the loyal customer funds the discount that recruits the replacement, which attacks retention at exactly the point where retention is the acute problem. Secondly, J.D. Power attributes the faster durability deterioration of premium brands directly to price competition eroding product substance, which means the discount is consuming the one product claim the German brands can still make. And thirdly, each discounted cohort is composed of buyers less able to sustain a price premium in the next cycle. The remedy is not holding list prices while share collapses. It is separating the two instruments: a structurally repositioned list price held with a stable transaction price protects residual values, whereas a maintained list price cut at the counter destroys them.
- › **Second, localised technology partnerships are necessary but far from sufficient.** When asked directly whether they would consider a multinational branded EV incorporating Chinese OEM technology, only about 41% said yes, and only 1% would pay more than a 20% premium for it. The combination does not automatically create value in the customer's mind.
- › **Third, the defensible China business is smaller than the current one.** If more than four in five owners intend to leave, consideration flows one way, half the market will pay no premium for a multinational EV, and the remaining volume gap can only be closed by the discounting described above, then part of today's volume exists only at prices that destroy residual values and product substance. Capacity sized to that volume is sized to demand the brands cannot defend. The honest planning case treats right-sizing as a decision rather than a failure: export use of the Chinese plants, model coverage reduction and network restructuring are instruments to be chosen deliberately, because the alternative is defending indefensible volume with the one instrument the customer research shows causes the damage.

1. Introduction

For four decades, the Chinese market rewarded the German premium brands more reliably than any other. It absorbed their volume, paid their price premium, and treated the badge as the product. Between 2020 and 2026 that arrangement ended. Chinese brands now take seven of every ten passenger cars sold, the three German premium marques have lost roughly a quarter of their combined China volume since the 2023 peak, and the decline has steepened every year.

The interesting question is not whether this happened. It is why, because the answer determines what can be done about it. Two explanations dominate boardroom discussion in Germany. The first is *guochao*: Chinese customers have turned patriotic and buy Chinese for its own sake. The second is price: domestic brands undercut, and the market followed the discount. Both explanations are convenient, because neither implicates the product. This paper tests both against the customer research and finds that the evidence supports neither as the primary driver. What it supports instead is substitution: the attributes that decide a car purchase in China changed with the powertrain, and on the new attributes the domestic brands are measurably ahead.

The distinction matters commercially. A patriotism problem has no product answer. A price problem invites more discounting, which this paper shows is actively harmful. A substitution problem has a product answer, a retention answer and a capacity answer, and they must be executed in a specific order.

What this paper is, and is not

This is a meta-analysis of primary customer research, not primary fieldwork and not commentary. It draws together, and where they conflict confronts, the major independent studies of Chinese automotive customers: the CACSI and NEV-CACSI satisfaction indices run by the China Association for Quality, the J.D. Power China study suite covering quality, appeal, technology and purchase experience, the McKinsey China Auto Consumer Survey, the Deloitte Global Automotive Consumer Study, and the registration statistics of CAAM and CPCA against which all stated preference is checked. Individual studies have individual strengths and weaknesses of sampling and question design. The findings presented here are those that hold across several independent sources; where a finding rests on a single source, the text says so. The full study inventory, sample sizes and methodological cautions are set out in the Sources and Methodology chapter at the end of this paper.

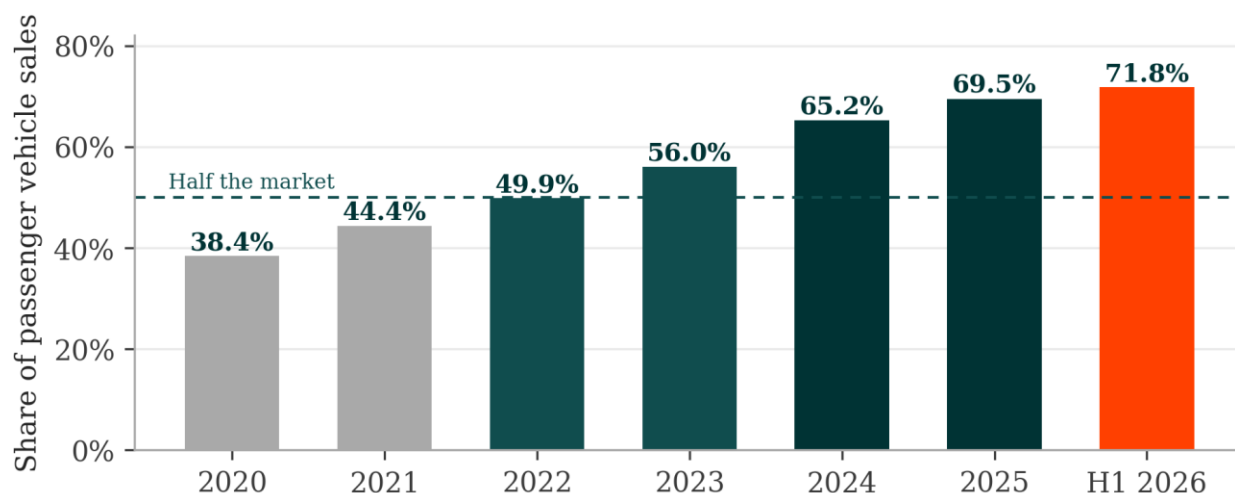
After this Introduction in Chapter 1, Chapter 2 establishes what actually changed between 2020 and mid-2026, in volumes, prices and loyalty. Chapter 3 sets out the six evidenced mechanisms behind the shift and examines the nationalism hypothesis. Chapter 4 records what has not changed, because reporting only the collapse would mislead. Chapter 5 assesses the early signals of a brand revival visible in the most recent survey wave. Chapter 6 draws the implications for German OEMs and their suppliers as an ordered sequence rather than a menu.

2. What actually changed, 2020 to mid-2026

EXHIBIT 1

Chinese brands took the market in five years

Chinese brand share of passenger vehicle wholesales in China, full year 2020 to first half 2026



Source: automodicted, based on CAAM annual and monthly industry statistics. CPCA retail share runs lower (65.0% in 2025) because retail and wholesale are measured differently.

Start with revealed preference, because it is the least disputable and it sets the scale of the problem.

Three features of this curve matter more than the headline.

- › **The inflection is 2022 to 2024, not 2020.** Chinese brands crossed half the market in 2022 and added more than fifteen points in the following two years. That period coincides with the arrival of competitive plug-in hybrid and extended range products and the first generation of credible urban assisted driving, not with any change in the political climate.
- › **The German decline began as relative erosion and became an accelerating absolute fall.** From 2020 to 2023, combined BMW, Mercedes-Benz and Audi deliveries in China held between 2.19m and 2.32m units, a plateau that looked like stability. It was not: over the same three years the market's Chinese brand share rose from 38% to 56%, so the plateau concealed a steep relative decline. The

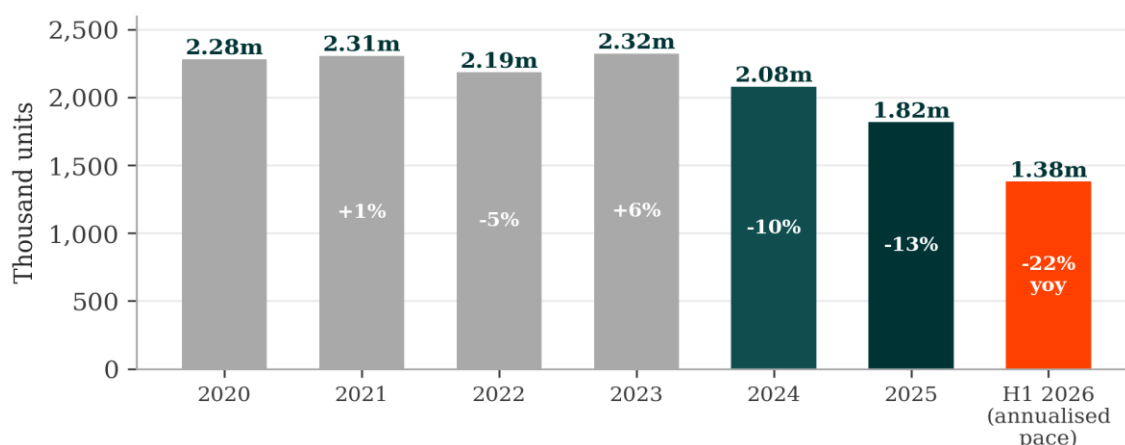
absolute fall then began and has steepened every year since: minus 10% in 2024, minus 13% in 2025, and roughly minus 22% year on year in the first half of 2026, when the three delivered about 690,000 units between them, with Mercedes-Benz down 28%, BMW down 20% and Audi down about 19%. Each stage of the spiral has been faster than the last.

- › **Pricing has broken structurally, not tactically.** Average transaction prices for Mercedes-Benz, BMW and Audi in China were 417,000, 341,000 and 287,000 renminbi in 2025, falling to 375,800, 315,400 and 270,600 renminbi by May 2026. BMW revised recommended retail prices on more than thirty models with effect from January 2026, with some reductions exceeding 300,000 renminbi, and by July 2026 all three brands had moved to systematic official repricing of their core line-ups. Audi Group's operating margin fell to 5.1% in 2025 from 6%, with China financial earnings falling to 504 million euros from 651 million euros.

EXHIBIT 2

First a plateau that hid relative decline, then an accelerating fall

Combined BMW Group, Mercedes-Benz and Audi deliveries in China, brand-reported, full year 2020 to first half 2026



Source: automodicted, based brand-reported China deliveries (BMW incl. MINI; Mercedes-Benz incl. light commercial vehicles; Audi incl. Hong Kong). H1 2026: 690,300 units (BMW 261,800, -20.4%; Mercedes-Benz 210,200, -28%; Audi 218,300, -19%), shown at annualised pace. Reporting scopes differ slightly between brands and years; year-on-year rates are computed within consistent scopes.

2.1 The premium segment

The centre of the German position is the premium segment, and the position there is deteriorating faster than in the market overall. Domestic brands held 24.9% of the segment above 300,000 renminbi in 2023 and 40.97% in 2025, a gain of about sixteen percentage points in two years. In the price band above 400,000 renminbi, six of the ten best selling models in May 2026 (latest available data point at the time of writing this paper) were domestic new energy vehicles and four were BBA combustion cars; the NIO ES8 led the ranking with 11,472 units.

The decline is concentrated in exactly the band that carried the German volume. CAAM registration data show combustion sales of 300,000 to 350,000 renminbi down 19.2% in 2025 and the 350,000 to 400,000 renminbi band down 15%: the 3 Series, C-Class and A4L tier, the cars that were for two decades the first premium purchase of the Chinese middle class.

Is the segment itself shrinking? The evidence cuts both ways

Whether the premium segment as a whole will grow or shrink is genuinely contested, and the answer depends on which definition is used. Measured in price bands, the segment is currently contracting: CPCA data show the share of vehicles above 400,000 renminbi falling to 5.2% of the market in 2025 and the 300,000 to 400,000 renminbi band to 8.4%, while the bands below 100,000 renminbi gained share, and the average luxury transaction price fell 3.9%. Luxury brand retail share declined from 10.8% in September 2025 to 10.3% in June 2026. Weak consumer confidence and a broad downmarket shift

are visible in these numbers, and China's luxury penetration of around 18% remains high against under 10% in Japan and roughly 12% in South Korea, leaving room for normalisation.

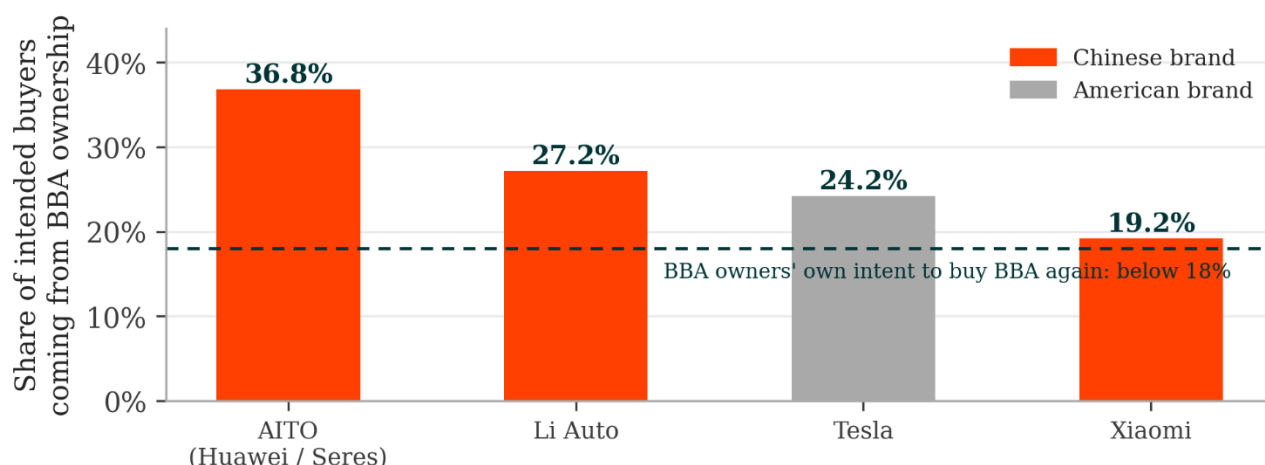
Measured in units at premium positioning, the opposite reading has support. CAAM counts 4.74m domestically produced premium-brand passenger cars sold in 2024, up 2.3% in the same year in which BBA deliveries fell 10%, and attributes the resilience to Chinese high-end new energy brands; the large SUV body styles that anchor premium price points grew 62% to 1.26m units. The challengers carried that structure into 2025 and the first half of 2026: the AITO M9 outsold the BMW X5 over the past year at close to 120,000 units, the Xiaomi SU7 leads battery-electric sedans above 200,000 renminbi, and the NIO ES8 tops the segment above 400,000 renminbi. Survey evidence points the same way from the demand side: in McKinsey's most recent waves, upgrade intent among buyers replacing their current car remains considerable and stated downgrade intent has fallen.

The two readings are reconcilable. Part of the price-band contraction is definitional: when transaction prices deflate, the same car falls out of the band without any customer trading down. Demand for premium-positioned vehicles has so far proven more resilient than the price bands suggest, but it is being served at lower price points and increasingly by domestic brands. For capacity and network planning the distinction is decisive, because a plan sized against the price-band definition and a plan sized against the positioning definition produce materially different answers. Both should be modelled.

EXHIBIT 3

Where the departing German premium customer goes

Share of each brand's intended buyers who currently own a BMW, Mercedes-Benz or Audi, China 2025



Source: automodicted, based on Yiche Research Institute analysis as reported in Chinese trade and business media, January 2026. Intended buyers are owners planning their next purchase (replacement or addition); the shares describe the composition of each brand's incoming demand, not the split of BBA departures. Dashed line: Yiche's finding that fewer than 18% of current BBA owners intend to choose a BBA brand again at their next purchase.

2.2 The acute problem is retention, not conquest

The most commercially alarming number in the whole evidence base is not a market share. In 2025, owner repurchase intent fell below 18% for each of the three German premium brands. Fewer than eighteen in every hundred BBA owners planning their next purchase intend to choose BBA again.

Read the two sides together. On one side, more than four in five owners intend to leave. On the other, the attacker brands are recruiting disproportionately from exactly that pool: among buyers intending an AITO as their next car, more than a third currently drive a BBA. These shares describe the composition of each challenger's incoming demand, not the split of BBA departures, and intended purchases include additions as well as replacements, so they overstate outright defection somewhat. The direction is nonetheless unambiguous, and it is corroborated independently: in the Deloitte 2026 study, 72% of Chinese respondents

intend to switch brands at their next purchase, the highest share of the eight major markets surveyed.

This reframes the problem. A conquest problem is solved with product, price and reach. A retention problem of this magnitude is solved with ownership experience, software delivery over the vehicle's life, and residual value, none of which are addressed by the price cuts and channel consolidation currently underway. Worse, the price cuts actively feed the defection: every official reduction lowers the resale value of the cars existing customers already own, so the loyal customer pays for the discount that recruits the next one. Dealer price inversion of 30 to 50% on luxury brands, reported by the China Automobile Dealers Association, is the same mechanism seen from the channel side. The qualitative evidence in the same reporting is blunt: former BBA owners who switched described the move as one they would not reverse.

The question this paper answers

Given that revealed preference moved this far this fast, the useful question is not whether Chinese customers now prefer Chinese brands. They do. The question is what decision rule changed, because the answer determines whether the shift is reversible and by what.

The customer research gives a clear answer, set out in chapter 3.

3. Why Chinese customers choose Chinese brands

Six mechanisms are evidenced across independent studies, set out at 3.1 to 3.6. They are presented in causal order rather than by strength, because they operate as a sequence rather than as a list. A seventh explanation, national sentiment, is examined at 3.7 and is not well supported by the automotive evidence.

3.1 The decision criteria changed with the powertrain

This is the root cause and it is easily missed. The McKinsey 2025 survey asked buyers of combustion cars and buyers of electric cars to rank purchase factors separately. The results diverge sharply, cf. [Exhibit 4](#).

Brand is the first thing a combustion buyer considers and the fifth thing an electric buyer considers. Since new energy vehicles passed 60% of Chinese retail in 2026, the majority of the market now decides in a frame where German brand equity is a fifth-order variable. This is not a loss of brand strength. It is a loss of brand relevance, which is a different problem and requires a different answer.

McKinsey's own framing is worth noting: they expect that as electric technology matures and range, charging and battery performance converge across brands, the importance electric buyers place on branding may come to resemble that of combustion buyers. Chapter 5 examines early signs that this may be starting.

3.2 On the attributes that now decide, Chinese brands are ahead

Asked directly why they chose a premium Chinese electric vehicle rather than a major German premium brand, owners give technology reasons first and by a wide margin.

Two details in [Exhibit 5](#) deserve attention. First, the three technology reasons at the top all strengthened between 2023 and 2024, while several of the softer reasons weakened. The technology explanation is getting stronger, not weaker.

Second, “no added value from German branding” at 44%, up five points, is the single most commercially significant line in the whole evidence base. It is not a statement that German brands are bad. It is a statement that they are neutral, and a neutral brand cannot support a price premium.

The perception data supports this. Across traditional attributes, Chinese brands now hold six of the top ten positions on energy efficiency and comfort, four of the top ten on safety and on quality, against zero, two, one and one respectively four years earlier. On technology attributes the position is not close: Chinese brands hold nine of the top ten on electric powertrain and eight of the top ten on both autonomous driving and smart cockpit.

EXHIBIT 4

Brand falls from first to fifth when the powertrain changes

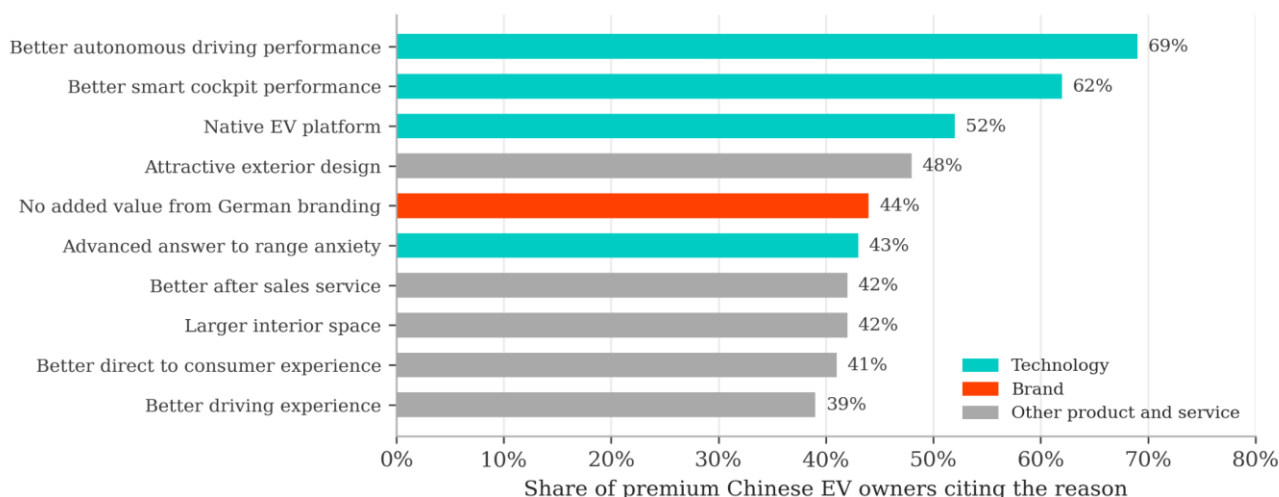
Rank	Combustion vehicle buyers	Electric vehicle buyers
1	A car brand I trust (75%)	Range and charging time (60%)
2	Dynamic experience (68%)	Static experience (52%)
3	Energy and maintenance cost (66%)	Energy and maintenance cost (50%)
4	Static experience (66%)	Dynamic experience (49%)
5	Aftersales quality (59%)	A car brand I trust (48%)
6	Smart functions (52%)	Advanced battery technology (46%)

Source: automodicted, rebuilt from McKinsey China Auto Consumer Insights 2025, Exhibit 19. Percentages are not directly comparable between the two columns because electric buyers were offered more options.

EXHIBIT 5

Buyers defect on technology, not on price or patriotism

Stated reasons for buying a premium Chinese EV rather than a major German premium brand, 2024



Source: automodicted, rebuilt from McKinsey China Auto Consumer Insights 2025, Exhibit 20. Owners of ten premium Chinese EV brands, multiple answers permitted

3.3 Measured quality converged, then crossed over

Perception could be dismissed as marketing. The independent measurement cannot.

The crossover in Exhibit 6 is measured in combustion vehicles, the incumbents' home ground, which makes it more remarkable rather than less: domestic brands now lead initial quality in exactly the product category the German brands have refined for a century. J.D. Power described the result as a milestone signifying substantive breakthroughs in feature configuration, user experience, manufacturing quality and quality control systems, attributed the domestic gains directly to new energy vehicle development experience carried

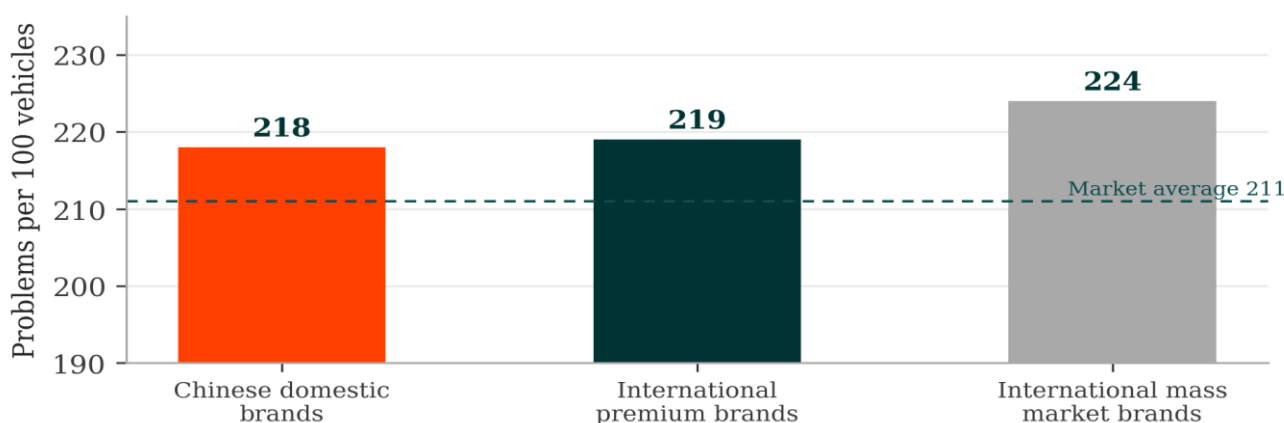
across into combustion line-ups, and put the task for international brands as translating technology heritage into experiences that reflect how Chinese consumers actually use their vehicles, naming voice interaction, infotainment and seat comfort.

The new energy side is measured separately, and it agrees. CACSI's 2025 new energy wave, a different study with a different sample, found that domestic brands report significantly fewer faults per 100 new vehicles than joint venture brands, with the smart cockpit gap alone at 16 faults per 100 vehicles. Domestic brand overall satisfaction reached 80 points, level with joint venture brands, and perceived value at 79.7 points was 0.1 points ahead..

EXHIBIT 6

In 2026 domestic brands led measured initial quality for the first time

J.D. Power China Initial Quality Study 2026, problems per 100 vehicles by brand group. Lower is better.



Source: automodicted, rebuilt from J.D. Power 2026 China Initial Quality Study, 25 June 2026. N = 13,919 ICE vehicle owners, 131 models, 35 brands, 81 cities. Market average improved to 211 PP100 from 219 PP100 in 2025.

The counter-evidence

In combustion vehicles the picture is different and it favours the incumbents. In CACSI's 2025 combustion assessment, domestic brand satisfaction remained one point below joint venture brands and perceived value 0.3 points below. The J.D. Power 2025 China Vehicle Dependability Study, covering 22,941 owners of vehicles bought between February 2021 and June 2024, put premium brands at 181 problems per 100 vehicles against 202 for mass market brands, a 21 point advantage.

The honest reading is that domestic brands have won on initial quality and on new energy quality, and have not yet won on durability. That is a real asset for the German brands, but it is one that customers only experience after they have already bought, and chapter 4 shows that it is being eroded from both directions at once.

3.4 The ownership experience gap is widening

Satisfaction after purchase compounds. McKinsey's net recommendation score for owners of premium Chinese electric vehicles held at 45% in both 2023 and 2024. For owners of premium multinational combustion vehicles it fell from 35 to 31%. On satisfaction by dimension the premium Chinese electric owners lead on total cost by 13 percentage points, on driving experience by nine, and on smart cockpit by four.

The retail experience shows the same split. In the J.D. Power 2026 China Purchase Experience Index, domestic start-up brands scored 810, domestic brands 801, traditional domestic brands 786 and international brands 784. J.D. Power's framing of that study is blunt: the purchase experience has replaced brand loyalty as the primary differentiator among consumers.

3.5 Consideration became unidirectional

Purchases are made from an initial consideration set, and the survey evidence is that 98% of combustion

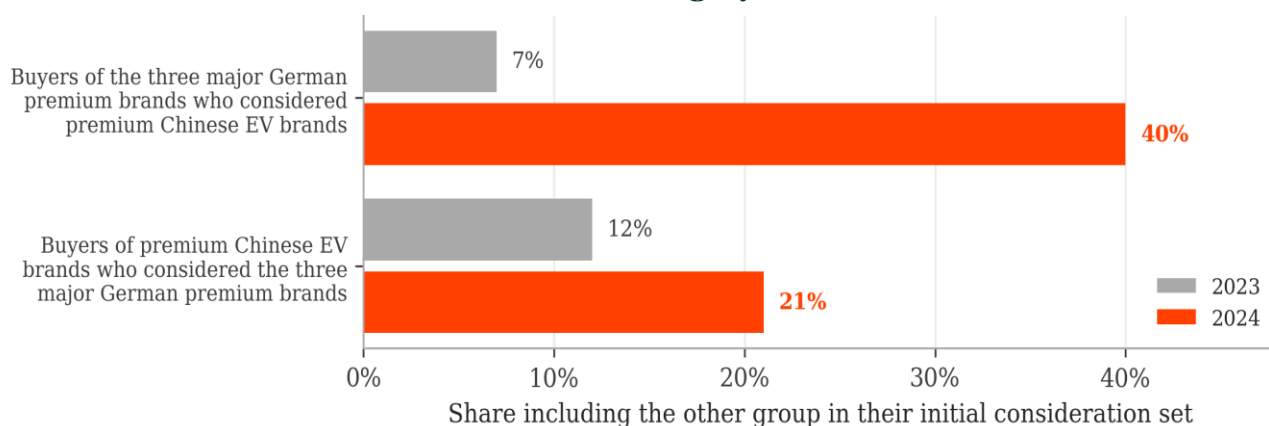
buyers and close to 90% of electric buyers ultimately purchase from within that set. Whatever happens in product development is irrelevant if the brand is not in the set.

The same asymmetry holds in the mass segment. 70% of buyers of mass multinational brands considered a mass Chinese brand in 2024, up from 49%, while the reverse flow moved from 43 to 56%. The asymmetry has a mechanism rather than being a curiosity: buyers of German brands acquired a reason to look across, because the attributes they increasingly want, set out in section 3.2, sit on the other side, while buyers of premium Chinese EVs acquired no equivalent reason, because the attributes German brands still lead on are no longer the ones that decide.

Note also what German brands do inside the consideration set. Their consideration-to-purchase conversion is much stronger in the overall market than in the electric market. They remain competitive where they are considered for a combustion car and are weak where they are considered for an electric one.

EXHIBIT 7

Consideration became one-directional in a single year



Source: automodicted, rebuilt from McKinsey China Auto Consumer Survey, reported in China Auto Consumer Insights 2025, Exhibit 9. N = 2,498.

3.6 The premium has gone, and discounting replaced product as the reason to buy German

Willingness to pay more for a multinational premium electric vehicle over a Chinese one has hardened rather than collapsed suddenly: 47% of respondents were unwilling in 2022, 50% in 2023 and 50% in 2024. Among the half who would still pay something, 63% would pay less than 10% more and only 3% would pay more than 20%.

More telling is what German premium electric buyers now say motivated them. Trust in quality remains first at 81%. But attractive pricing due to discounts moved from the fourth most cited reason in 2023 to the second in 2024, at 68%. Substantial discounting, rather than comprehensive product performance, has become the primary commercial driver for this group.

This is the trap. Discounting recruits the buyers least able to sustain the brand's price position, while the measured net stimulus of the price war across the whole market was only 3.6% in 2024, against 10.8% for faster technology cycles. Net stimulus here is a survey balance: the share of recent buyers who said the factor accelerated or triggered their purchase minus the share who said it delayed or deterred it. The price war's balance is so low because it cuts both ways at once: for every buyer the discount attracts, almost as many postpone their purchase to wait for the next cut or read falling prices as a warning about resale value. Faster technology cycles carry no such offsetting deterrent, which is why their measured pull on the market is three times as strong. In the 2026 wave the price war turned net negative outright, with 22.2% of recent buyers viewing it negatively against 16.5% positively, while the technology effect rose to a net positive 20.7%, nearly double the previous year.

The trap has already been tested once. In July 2024 BMW pulled back from the price war, cutting dealer volume targets to stabilise transaction prices and protect the network. Retail prices recovered briefly, volume fell sharply, and within months discounting had resumed across the line-up. The episode is instructive in both directions. It confirms that unilaterally holding price into a technology-driven demand shift buys margin at an untenable volume cost. It also shows that the choice as posed, discount or hold, was the wrong one: what was attempted was a maintained list price with a briefly disciplined counter, not a repositioned list price the market could believe, so residual values gained nothing and volume paid the full price of the experiment.

3.7 What the data does not support: nationalism as the primary driver

The guochao literature is substantial and credible. Peer reviewed work in Humanities and Social Sciences Communications and elsewhere documents consumer ethnocentrism as a real determinant of Chinese purchasing behaviour, particularly among younger consumers and in categories with strong cultural coding such as fashion, beauty and consumer electronics.

The automotive customer research, however, does not support it as the leading explanation. Three pieces of evidence point the other way.

- ▶ Asked what defines a premium car brand, respondents ranked “originated from developed nations such as the EU, US or Japan” last of fourteen attributes at 53%, well below brand heritage at 83%, safety at 79% and manoeuvrability at 77%. On its own this item cannot separate indifference from guochao-driven rejection, since both predict a low score; it is included as consistent with the indifference reading rather than as proof of it. The two points that follow carry the discriminating weight.
- ▶ Brand origin preference in China is unremarkable in cross-market terms. In the Deloitte 2026 study, 40% of Chinese respondents preferred a domestic manufacturer for their next vehicle, 19% a foreign one and 42% said brand origin did not matter provided the vehicle met their needs. The Chinese figure sits close to Germany at 41% and well below Japan at 78%. If domestic preference were driving the Chinese market, Japan should look far more closed than it does.
- ▶ Brand heritage as a premium marker is strongest among lower income consumers and lower tier cities, at 92% combined importance in tier three and four cities against 76% in tier one. Emotional brand attachment is decaying fastest exactly where purchasing power is highest, which is the opposite of what a patriotism-led explanation predicts.

The better reading. Guochao lowered the social cost of buying a Chinese car and made domestic choice socially legible. It did not create the demand. Product substitution created the demand, and cultural confidence removed the last reason not to act on it. That distinction matters commercially, because a patriotism problem has no product answer, while a substitution problem does.

4. What has not changed

A paper that only reported the collapse would be misleading. Three things are holding.

Premium and luxury perception remains incumbent-led

On McKinsey's five-tier brand positioning exercise, incumbent brands dominate every luxury position and hold significant advantages in the premium cluster. Several disruptor brands have entered the premium cluster but most lag the incumbents, with one notable exception which leads the entire premium cluster. Disruptor brands dominate the mass cluster.

Brand heritage is still the leading definition of premium

Brand heritage ranks first at 83% of respondents rating it a must-have or nice-to-have in defining a premium brand. The caution McKinsey attaches is important: its lead over safety is only four percentage points, and on the must-have measure alone heritage ranks below safety and manoeuvrability. Heritage still leads, but the lead is not stable.

Combustion durability still favours the incumbents, but the erosion is two-sided

How fast the durability advantage is eroding can now be answered in part from the 2025 dependability study, and the answer is not the reassuring one.

Design-related problems, now 45% of all dependability problems and the main driver of long-term deterioration, rose over two years from 84 to 102 problems per 100 vehicles for domestic brands, an increase of 21%, and from 66 to 84 for premium brands, an increase of 27%. In absolute terms the 18-point gap held. In relative terms the premium brands deteriorated faster, and J.D. Power attributes this directly to aggressive price competition eroding product substance.

The implication is uncomfortable. The durability advantage is not being closed mainly by domestic brands improving. It is being closed by premium brands degrading under the cost pressure of their own discounting. That makes recommendation four in chapter 6, retiring the variable discount, a precondition for recommendation five, using durability as the differentiator. They cannot be pursued in the other order.

The 2026 China Vehicle Dependability Study, normally published in October, will be the decisive read on whether the erosion has continued.

5. Early signs of a brand turn

The most recent evidence complicates the picture in a way that is commercially useful, though it currently rests on a single survey wave and should be read as an early signal rather than an established trend. The McKinsey 2026 China Auto Consumer Survey, presented in May 2026, reports that brand has risen to the second most important purchase factor for electric vehicles, behind only driving range and charging convenience, and that the number of brands consumers initially consider has begun to narrow for the first time in years.

If the signal holds, it is the mechanism McKinsey predicted in 2025 arriving on schedule: as range, charging and battery performance converge across brands, those attributes stop differentiating and the decision reverts to trust. Three further findings from the same wave point the same way.

- › Value has replaced price. Endless price competition is described as backfiring and creating hesitation

rather than driving sales, with the price war net negative on sentiment for the first time.

- › Smart technology has become table stakes rather than a differentiator. 69% of respondents now consider advanced assisted driving such as urban navigate on autopilot a must-have, and 84% expect in-car artificial intelligence assistants to become proactive rather than reactive.
- › What counts as brand has changed. Traditional notions of brand heritage are becoming less relevant, and consumers increasingly judge automakers on whether advanced technologies work reliably in everyday use.

Confirmation should be sought in the next available independent waves: the 2026 NEV-CACSI results and the 2027 McKinsey survey. Until then, the signal justifies preparation, not reliance, and the recommendations in chapter 6 treat it accordingly.

The strategic reading

The window in which raw technology specification alone won Chinese customers appears to be closing. If the early signal holds, the next competition is about reliable delivery of technology, sustained over the ownership period, under a brand the customer trusts to keep delivering it.

That is a competition in which German engineering credibility and durability record become relevant assets again, for the first time in five years. It is also a competition the German brands will lose if they arrive with a heritage argument rather than a delivery argument.

6. What this implies for a European incumbent

These are sequenced, not optional. Each step depends on the one before it, and attempting the later steps without the earlier ones is what has failed so far. The dependency between steps four and five is evidenced rather than asserted: chapter 4 shows that discounting is itself degrading the durability advantage that step five relies on.

- 1. Stop treating this as a brand problem.** The evidence says brand is not weak in China, it is irrelevant to the electric purchase decision and may be becoming relevant again on different terms. Brand investment aimed at reasserting heritage is spending against the least important attribute in the set. Diagnose first, then spend.
- 2. Fix consideration before fixing conversion.** 98% of combustion buyers and close to 90% of electric buyers purchase from within their initial consideration set. Product programmes and dealer incentives cannot reach a customer who never listed the brand. The measurable target is entry into the electric consideration set, and it should be tracked as a primary key result, not as a marketing vanity metric.
- 3. Compete on the three attributes that actually decide.** Assisted driving performance, smart cockpit performance and a native electric platform account for the top three stated reasons for defection, at 69, 62 and 52%. Anything that does not move one of those three is not addressing the loss.
- 4. Retire the variable discount, not the price.** The damage does not come from a low price but from the gap between list price and transaction price, and from the volatility of that gap, because residual values are set against realised transaction prices and their stability. A structurally repositioned list price held with discipline can defend volume. A maintained list price cut at the counter reprices the installed base every quarter, recruits the buyers least able to
- sustain price position and, as chapter 4 shows, degrades the durability advantage that step five depends on. Transaction price erosion of 10 to 12% in eighteen months across the three German brands is the cost of the second instrument, not the first. Where volume is reachable only through variable discounting, the constraint is capacity sized against indefensible demand, and the correct instrument is capacity, not price.
- 5. Use durability as the differentiator, and prove it.** Independent Chinese and third-party measurement both show international brands retaining long-term quality advantages that domestic brands have not yet closed. This is the one product claim the German brands can make that the data supports and the competition cannot yet match. It is currently unused.
- 6. Design the technology partnership around customer value, not around capability access.** Only about 41% of relevant respondents would consider a multinational branded electric vehicle incorporating Chinese technology, and only 1% would pay a premium above 20% for it. Partnership closes a capability gap. It does not by itself create willingness to pay, and it may transfer credit to the technology partner.
- 7. Rebuild the purchase and ownership experience to the domestic start-up standard.** International brands score 784 against 810 for domestic start-ups on purchase experience. The failure modes are specific and fixable: negative test drives drop net promoter score among new energy owners to minus 76, and undemonstrated technology features have a similar effect. This is a dealer capability and process problem, not a product problem.
- 8. Prepare for the brand window that may be opening.** First signs indicate that brand has returned to the number two purchase factor and that consideration sets are narrowing for the first

time in years. The signal rests on a single survey wave and warrants preparation rather than reliance, but preparation has a hard deadline: if the window opens, the brands that benefit will be those that have already fixed steps two through seven. Those that have not will find the shortlist forms without them.

For suppliers, the same evidence carries a distinct message. Customer demand has moved to assisted

driving, the smart cockpit and native electric platforms, which means content per vehicle is migrating towards domains where Chinese OEMs increasingly specify Chinese technology stacks. A supplier whose German premium accounts shrink at the rates in Exhibit 2 faces the same right-sizing question as the OEMs, one sourcing cycle later, and the defensible answer runs through the same sequence: qualify onto the platforms that are winning the customer, before defending the volumes that are losing them.

How automodicted can help

automodicted advises OEMs and suppliers on exactly the decisions this paper raises. Four engagements follow directly from the findings.

For OEMs

Market & competitive strategy

Where to compete in and around China, against which competitive set, with which positioning and which portfolio, grounded in customer evidence rather than internal conviction.

Structural transformation

Aligning cost structures, capacity, organisation and network with defensible demand, including the cases nobody commissions gladly: right-sizing, consolidation and orderly exit from indefensible positions.

Partnerships & cooperation models

Shaping technology and industrial partnerships so that capability gain translates into customer value and stays attributed to your brand.

For suppliers

Customer portfolio strategy

Understanding how the shifts described in this paper cascade into your order book, one sourcing cycle delayed, and rebalancing the customer portfolio before the cycle closes rather than after.

Growth with new customers

Building the path to Chinese OEM platforms, in China and in their European localisation, from qualification logic to commercial model.

Footprint and capacity

Sizing plants, lines and engineering capacity against the demand that will exist, not the demand that did.

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Sources and Methodology

This paper is a meta-analysis of published primary customer research. Four evidence families are used, with different strengths. Chinese domestic satisfaction indices, above all CACSI and NEV-CACSI run by the China Association for Quality since 2002, are the closest structural equivalent to a national new car buyer survey and report the domestic versus joint venture split directly. Third-party syndicated studies, principally the J.D. Power China suite, provide the strongest measured evidence on product quality, appeal and purchase experience. Consultancy consumer surveys, led by the McKinsey China Auto Consumer Survey and the Deloitte Global Automotive Consumer Study, supply stated purchase reasons, consideration sets and willingness to pay. CAAM and CPCA registration statistics provide the revealed preference against which all stated preference is checked.

Findings presented in this paper are, wherever possible, those that hold across several independent sources. Sample frames differ substantially between studies, from online panels in 19 cities to intercept interviews across 128 cities, and consultancy surveys anonymise individual brands, so brand-level conclusions about BMW, Mercedes-Benz or Audi individually cannot be drawn from the published material. Where a figure rests on secondary reporting rather than an accessible primary source, notably the owner repurchase intent and buyer-origin figures attributed to Yiche Research Institute and reported

consistently across independent Chinese business media in January 2026, the exhibit annotation says so. The widely circulated claim that Chinese brands hold 83% of the market above 400,000 renminbi was tested against registration data and better sourced segment research and is not used in this paper; the defensible figure is approximately 41% above 300,000 renminbi in 2025.

One study points the other way and deserves note. The KPMG Global Premium Automotive Customer Experience Study, published January 2026, reports that German manufacturers remain the brands most frequently named as premium in all four core markets including China, and that consumers accept price premiums of up to 20% for well-known premium brands. This is difficult to reconcile with the willingness-to-pay and transaction price evidence above. KPMG has not published sample sizes or question wording; unaided brand recall favours long-established names, and naming a brand as premium is a different question from buying one at a premium. The finding is best read as evidence that German brands still own the word premium in China, which is not the same as owning the segment.

Exhibits marked as rebuilt were redrawn by automodicted from the cited source's published data; they are automodicted's presentation, not reproductions, and any transcription errors are automodicted's own.

EXHIBIT 8

Study inventory

Study	Publisher, cadence	Latest wave and sample	Used here for
CACSI / NEV-CACSI	China Association for Quality, annual since 2002 (ICE) and 2015 (NEV)	2025 NEV wave: 25,303 responses, 128 cities, 55 brands, 162 models	Domestic vs joint venture satisfaction, value, faults per 100 vehicles
China IQS / NEV-IQS	J.D. Power China, annual, 27th year	2026 IQS: 13,919 ICE owners, 131 models, 35 brands, 81 cities; NEV-IQS: 21,177 owners	Measured initial quality by brand group; the 2026 crossover
China APEAL / NEV-APEAL	J.D. Power China, annual, 23rd year	2026 NEV-APEAL: 21,512 owners, 137 models, 49 brands	Product appeal separate from defect counts
China PXI (formerly SSI)	J.D. Power China, annual	2026: 9,093 owners, purchases June 2025 to Jan 2026	Purchase experience by channel type
China VDS	J.D. Power China, annual	2025: 22,941 owners, vehicles bought Feb 2021 to June 2024	Long-term dependability; the durability erosion evidence
China Auto Consumer Survey	McKinsey, annual, tenth year	2025 report: 2,498 consumers, 19 cities; 2026 wave presented May 2026	Purchase factors, defection reasons, consideration, willingness to pay

Study	Publisher, cadence	Latest wave and sample	Used here for
Global Automotive Consumer Study	Deloitte, annual, 16th year	2026: 28,553 respondents, 27 markets, 1,000 in China	Cross-market brand origin preference and switching intent
Global Premium Automotive CX Study	KPMG, January 2026	Core markets Germany, UK, US, China; sample not disclosed	The dissenting view on premium perception, treated with care
Registration and sales statistics	CAAM and CPCA, monthly and annual; brand-reported deliveries	Full population of wholesales and retail registrations	Revealed preference; the check on all stated preference
Owner loyalty analysis	Yiche Research Institute, 2025, via Chinese business media reporting	Methodology not published; figures consistent across independent outlets	Repurchase intent and buyer-origin composition in chapter 2.2

In addition: China Automobile Dealers Association price inversion reporting; CPCA price band shares; Gangtise and other Chinese securities research on premium segment shares; brand annual reports and delivery announcements for Exhibit 2; peer-reviewed consumer ethnocentrism literature for section 3.7.

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