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GLOBAL PERSPECTIVES IN AUTOMOTIVE INDUSTRY

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ABSTRACT: *The automotive sector is characterised by a relatively low trade/sales ratio. While the production of most automotive producers in the world is spread over various countries in the value chain, the brands are still considered to reflect some national identity. Internationalisation strategies may change over the lifecycle of the product and automakers tend to pursue diametrically opposed strategies. In mature markets, it is about managing what goes on beneath a static surface; in emerging markets' dynamic environments, companies must strategically position themselves to benefit from growth opportunities. However, without the right strategy and execution in mature markets, it is clear that traditional OEMs cannot profit from emerging markets-the persistence of structural issues in mature market operations eventually will rob all but the most resilient competitors of the opportunity to compete in emerging markets.*

KEY WORDS: *competitiveness; automotive industry; global market; sales; investment*

JEL CLASIFICATION: *L62, O18*

1. INTERNATIONAL MARKET

In Europe, the restructuring process is characterised by the shift east with the new EU member states in Central and East Europe (CEE) acting as the Western's pressure valve against a background of stagnating sales, rising raw material costs, increased competition from Asian automakers and falling new car prices. CEE gives automakers access to less costly labour and new customers, and it allows new entrants, such as Hyundai and Kia, to compete without legacy costs. The net effect has been a rebalancing of automaker footprints in the region with Western Europe losing 1.5 million in capacity since 2000, while CEE countries will have added 1.8 million units of capacity by 2009. While mature market OEMs gradually come to grips with the

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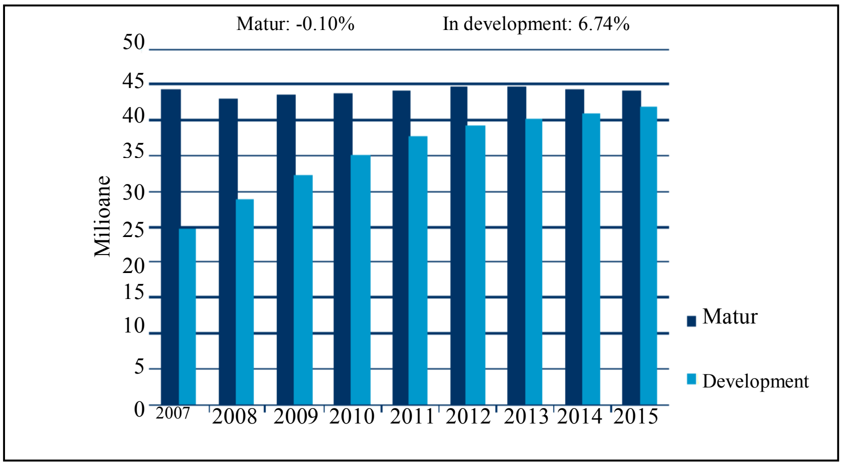
market-specifi c challenges presented to them, multifarious strategic challenges weigh just as heavily before emerging market investments are considered. Strategic challenges emanate from two sources-legislation or competition-and both add costs to competing in markets where better performance will originate only by increasing market share or reducing costs. Such constraints include increasing fuel economy or CO2 objectives, recycling initiatives (e.g., the EU's End of Life Vehicle Directive), changing consumer tastes, vehicle content escalation, premium brand growth, rising commodity prices and globalised supply chain management, among others.



Source: PwC Automative Institute 2008 Q3 Data Release

Figure 1. Global perspective

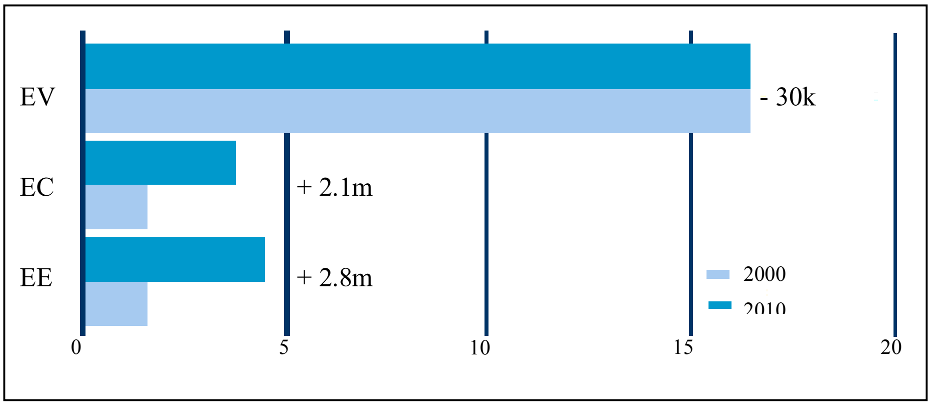
Once automakers meet these mature market challenges, the next stage is to compete effectively in the world's growth markets. From 2007 to 2015, emerging markets are expected to represent 18 times the estimated growth in light vehicle assembly as mature markets in the same period. PwC forecasts that 95 percent of light vehicle growth will originate from emerging markets. Among these markets, the BRIC (Brazil, Russia, India and China) countries are most eminent in the growth stakes, with more than 58 percent of forecasted growth from 2007 to 2015 stemming from them. Of the BRIC countries, PwC expects China and India to lead the growth in light vehicle output as OEMs look to sate the demands of a combined population of more than 2 billion people, with the less populous-but still strategically important-Russia and Brazil expected to grow less rapidly.

With these divergent focuses of OEMs' strategies, those competitors that best execute emerging and mature market strategies will be the winners. Those managing location issues with the concomitant capacity, together with a product portfolio that addresses anomalous market needs at the most attractive cost, will profit from the challenging global environment. Of the various competitors, it would seem that Toyota, despite a recent slowing of its growth in North America and Europe, is executing the most balanced global strategy. By 2015, PwC forecasts Toyota to remain the leading global alliance group with a forecast light vehicle output of 11.3 million. Behind

Toyota lies the growth forecast for GM, thanks to its strong emerging market presence, and the dynamic Renault-Nissan alliance. While the emerging market or low-cost car was once an important differentiator for Renault-Nissan, many of its competitors are looking to launch competing vehicles-e.g., Toyota with its EFC program and VW with its NCC program. Low-cost vehicles will take on increasing importance for global automakers as they seek to accelerate the development of emerging markets and thus reduce the pressure to perform in the world's highly competitive and challenging established markets.

2. EUROPEAN UNION OUTLOOK

Despite a short period of contraction from 2000 to 2003, Western Europe has enjoyed considerable stability since the late 1990s, with sales hovering around the 14.5 million mark in the mid-2000s. A lack of dynamic growth is a feature of a mostly mature market such as Western Europe, where replacement cycles and the prevailing economic situation drive demand. Economic growth in countries such as Poland, the Czech Republic, Hungary and Slovakia, as well as Romania (joined 2007), has spurred a boom in sales volumes. The star performer has been Romania, where sales rose more than 25 percent in 2007-08, thanks to the improving economic situation and the rollout of the Dacia Logan-exactly the type of low-cost car designed to boost sales in emerging markets. Poland also seems to be reaching its potential, with sales increasing almost 23 percent year-on-year and totalling 293,000 in 2007.



Source: PwC Automative Institute 2008 Q3 Data Release

Figure 2. European regions assembly 2000 vs. 2010 (milion units)

In Western Europe, a mosaic of factors influences the new car market. In Germany, the impact of the 3 percent increase in WATT continues to hold the German market back, so that despite a high average vehicle parc age and increasingly positive economic news, sales in 2007 were down almost 10 percent from 2006. Of the other big-fi ve markets, Spain also has moved into the negative, as the country's construction-driven economic boom ended and consumer confidence declined. Italy, France and the UK posted above-average year-on-year growth for 2007, with Italy, in particular, performing well (up 7 percent), thanks in part to a raft of new vehicle introductions from domestic OEM Fiat. The UK (up 2.5 percent) and France (up 3.2 percent) also posted positive fi gures; however, increasing disquiet about the general economic situation- stubbornly high unemployment fi gures in France, the increased cost of credit in the UK, and the rising cost of living in almost all markets (mature and emerging)-suggests the picture for 2008 will not be so rosy.

3. SUPPLY SITUATION

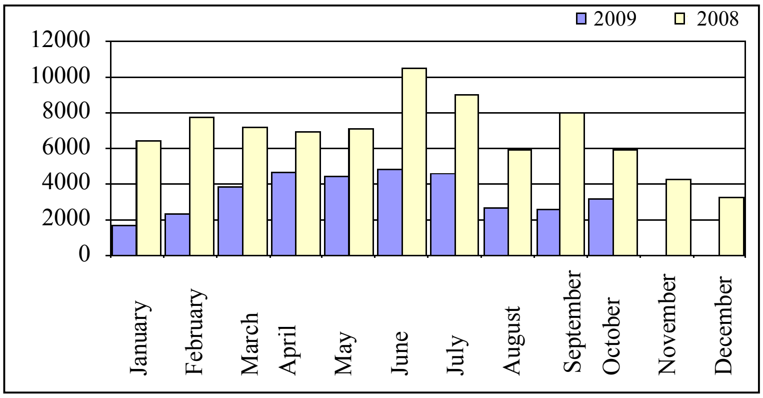
Due to the stable demand noted above, EU light vehicle output also has remained steady. Light vehicle assembly output rose to 18.830 million units in 2007, a significant increase above the previous peak of 18.065 million units in 2000. Following several years of near-fl at growth, output increased almost 1 million units in 2007. Looking ahead, light vehicle assembly output should continue to grow, at least until 2013. Then it is projected to reach 20.749 million units, almost 2 million units more than 2007's output. After this, volume likely will stabilise around 20.7 million units. The source of this growth will be twofold. First, a combination of market recovery and, more importantly, new model programme investment will see increased output from traditional Western European automotive assembly countries Germany, France and Italy. Collectively, these three will see an increase in excess of 800,000 units between 2007 and 2015. Second, the countries of Central Europe, specifically those that acceded to the European Union in 2004 and 2007, also will see significant volume gains. Growth of their export industries and burgeoning domestic demand will drive this increase. The key assembly locations in Central Europe will be the Czech Republic, Poland, Slovakia and Romania. Collectively, they will account for more than 1 million units of extra assembly volume between 2007 and 2015. Investment activity by specific alliance groups naturally will have a significant effect on volume growth. The top five contributors to growth during the 2007-2015 period will be Hyundai Group, VW-Porsche, Fiat Group, Renault-Nissan and Ford Group. Renault-Nissan and Ford will enjoy volume growth, thanks to investments in Romania. In all these cases, automakers will rely on both domestic sales (in mature and emerging European markets) and, increasingly, exports to underpin these growth strategies. In the important Central European markets of Poland, Romania, Czech Republic and Slovakia, OEMs will add more capacity to take advantage of the lower-cost location and potential for domestic sales growth. Hence the model mix in these plants will be a combination of low-cost, emerging market products and higherend vehicles for export to developed markets in Europe and around the globe. Romania, in particular, has become the new focus for investment. Between 2007 and 2015, its new capacity will expand by a projected 330,000 units. Some of this will be continuing expansion of the Dacia business by owner Renault, but the recent acquisition of a plant (with guarantees of capacity expansion) by Ford also is a major driver. Thanks to accession, Romania is increasingly on the agenda of other OEMs looking to adjust their European footprints. Sales in Romania are represented in tabel 1.

The Russian market is unusual in having so many foreign players with such initially low forecast production plans. Most vehicle manufacturers appear to be hedging their bets wisely and planning a balanced strategy of local production and continued import. Depending on how investment conditions in Russia develop, vehicle manufacturers have the opportunity to increase or decrease the balance between import and local production. The tables below illustrate the latest Automotive Institute estimates of planned local production levels by brand origin over different time horizons. The next table indicates that production of foreign automotive brands in Russia could rise from about 450,000 in 2007 to a sustainable level of around 3 million units within seven years. Nearly all of this growth will be foreign OEM brands or new Russian brands developed in collaboration with foreign strategic investors, such as between Avtovaz and Renault. What does this imply for the future of the automotive component industry in Russia?

Tabel 1. Car sales

	Autoturism				Vehicule comerciale (inclusiv minibuse şi autobuze)				Total			
	unităţi		cota de piaţă		<3.5 t		>3.5 t		unităţi		cota de piaţă	
	Oct-09	Cumul - 09	Oct-09	Cumul - 09	Oct-09	Cumul - 09	Oct-09	Cumul - 09	Oct-09	Cumul - 09	Oct-09	Cumul - 09
DACIA	3141	34424	30,3%	30,7%	224	2450	0	0	3365	36874	28,0%	29,1%
FORD	791	6912	7,6%	6,2%	139	1430	0	0	930	8342	7,7%	6,6%
PEUGEOT	336	3243	3,2%	2,9%	447	1365	0	0	783	4608	6,5%	3,6%
SKODA	773	7382	7,4%	6,6%	9	44	0	0	782	7426	6,5%	5,9%
VOLKSWAGEN	725	7928	7,0%	7,1%	43	1174	2	414	770	9243	6,4%	7,3%
HYUNDAI	695	9411	6,7%	8,4%	8	174	0	0	703	9585	5,8%	7,6%
RENAULT	579	7763	5,6%	6,9%	107	817	15	167	701	8747	5,8%	6,9%
KIA	636	5356	6,1%	4,8%	0	9	0	0	636	5365	5,3%	4,2%
FIAT	386	4349	3,7%	3,9%	150	1457	0	0	536	5806	4,5%	4,6%
TOYOTA	355	2870	3,4%	2,6%	36	365	0	0	391	3235	3,2%	2,6%
OPEL	349	5062	3,4%	4,5%	11	161	0	0	360	5223	3,0%	4,1%
CHEVROLET	336	3191	3,2%	2,8%	0	0	0	0	336	3191	2,8%	2,5%
MERCEDES	78	1106	0,8%	1,0%	95	1270	55	595	228	2971	1,9%	2,3%
SUZUKI	209	2139	2,0%	1,9%	0	0	0	0	209	2139	1,7%	1,7%
CITROEN	175	1720	1,7%	1,5%	20	319	0	0	195	2039	1,6%	1,6%
IVECO	0	0	0,0%	0,0%	86	557	45	521	131	1078	1,1%	0,9%
NISSAN	127	1042	1,2%	0,9%	1	124	0	0	128	1166	1,1%	0,9%
MITSUBISHI	74	1230	0,7%	1,1%	16	177	4	46	94	1453	0,8%	1,1%
BMW	91	929	0,9%	0,8%	0	0	0	0	91	929	0,8%	0,7%
AUDI	90	1098	0,9%	1,0%	0	0	0	0	90	1098	0,7%	0,9%
Rest	434	4995	4,2%	4,5%	4	30	136	1063	574	9088	4,8%	4,8%
TOTAL	10380	112150	100,0%	100,0%	1396	11923	257	2533	12033	126606	100,0%	100,0%

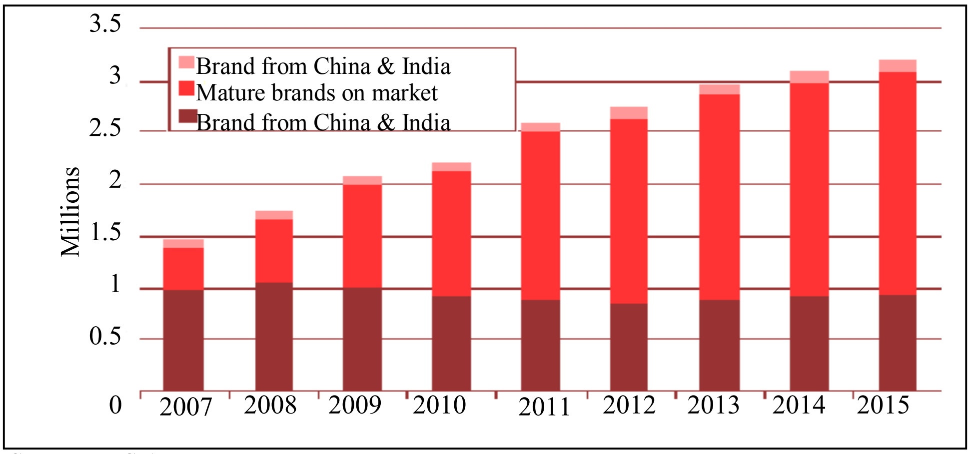
Source: [*www.apia.ro*](http://www.apia.ro)



Source: [*www.apia.ro*](http://www.apia.ro)

Figure 3. Car sales

Out of general economic necessity, most vehicle manufacturers will be trying to localise even more of their component supply to reduce customs duties and transport costs, and to benefit from local wage and raw material costs. If this trend is successful, the percentage of OEM components locally manufactured should increase from 10 percent to more than 50 percent over the next ten years, assuming that component cost is about 60 percent of the price of the car. This development could see the market for primary auto components for vehicle brands increase from $ 0.36 billion today to about $ 18 billion in seven years' time. At the same time, we could see a similar, if not larger, scale of increase in the secondary market for components. In short, an entire component industry waits to be developed in the wake of the current wave of foreign car manufacturing investment in Russia.



Source: PwC Automative Institute

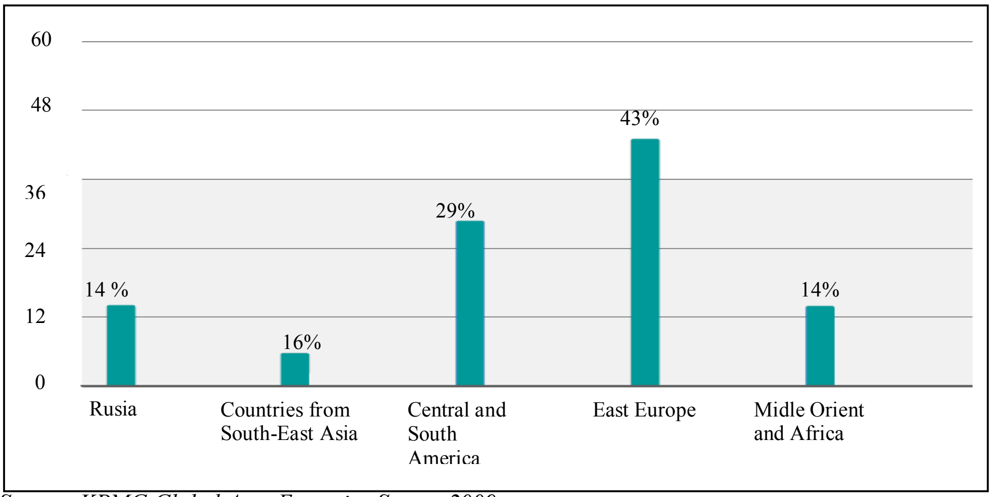
Figure 4. The prospect of Russian manufacturing

4. CHINESE AND INDIAN BRANDS TO GAIN MARKET SHARE

Market share expectations continue to shift in favour of emerging Asian and mature Japanese and Korean brands; U.S. brands are expected to perform worst. Year on year Chinese brands have moved from second to first place in market share expectations, and Indian brands from fourth to second place, relegating Toyota from top position to third. Expectations of Honda's market share have grown, as have expectations for many European brands. Meanwhile, expectations for General Motors, Ford and Chrysler have declined further from an already low level, with 63 percent of respondents expecting Ford to lose market share, 66 percent for General Motors and 69 percent for Chrysler. On a regional basis, EMA companies are markedly more optimistic on market share expectation than companies in the Americas or ASPAC - and in particular, they are more optimistic on the prospects for European brands (more than half of EMA companies see market share increases for VW and BMW).

Companies believe that even when China and India are discounted, emerging markets will still grow faster than any other region. Expectations of growth over the next three 48 years in markets outside China and India are globally well-distributed.

Expectations are strongest for Central and South America, reflecting the relative resilience of Brazilian 36 demand as economies elsewhere turns down. Nevertheless, a significant minority of respondents also expect strong growth in the Middle East and Africa, and again in 24 Russia and Ukraine.



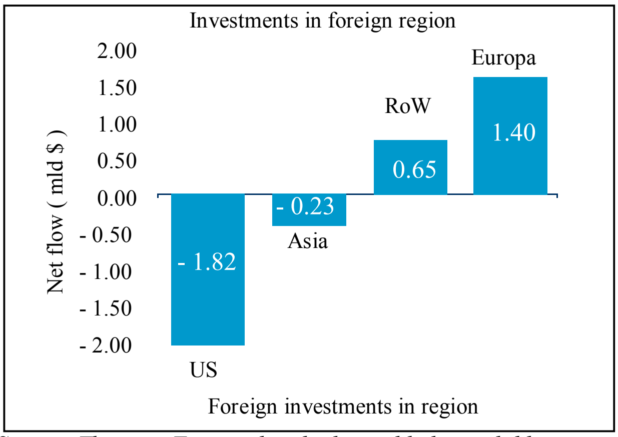
Source: KPMG Global Auto Executive Survey 2009

Figure 5. Markets and regions will present the greatest demand for consumption in the next 3 years

5. GROWTH MARKET BY FOREIGN DIRECT INVESTMENT

Drivers of future cross-border automotive deals will likely include the arrival of new global players, emerging market growth, and currency fluctuations. In many cases, automotive companies in emerging nations are quickly becoming global players looking for increased access to global customers, markets, and technology. Examples in recent deals include India’s Tata and Mahindra & Mahindra, China’s Chery and SAIC, and Russia’s Russian Machines. This trend is likely to feed cross-border deal flow over the next several years. In turn, companies from developed nations seeking to gain further access to the quickly growing markets in the BRIC countries are also likely to be a factor in future cross-border deal activity. This could be especially true of component suppliers who are seeking proximity to local VMs.

There were early signs of this in 2007 including Cummins’ purchase of the remaining shares of Tata Holset (a joint venture founded to produce diesel engines in India) and Bosch’s increased investment in Motor Industries, an Indian based component supplier. Finally, the weakening of the US dollar versus global currencies in 2008 vs. 2007 is likely to encourage bargain hunting in the US. This trend is already materialising in early 2008 as interest in US automotive assets increases. Overall, the currency situation could lead to a significantly larger net deal deficit for the US in 2008 vs. 2007, including large net deal surpluses from Asia, RoW, and potentially Europe.



Source: Thomson Financial and other publicly available sources

Figure 6. Net flow of business by region 2007

6. CONCLUSION

Taking as a criterion performance on the global market, one can conclude that the European automotive industry is without any doubt competitive. It has expanded its export shares, and has maintained or improved slightly its share in global sales. Its position in emerging markets such as China and the Russian Federation is strong and offers prospects for further growth. This success of the European automotive industry in international competition is primarily based on its dominance of a large, loyal, sophisticated and diversified home market. Moreover, enlargement has been beneficial to the industry through its productive base and market effects.

However, not all is positive. If the performance of the German, French and Spanish industry is strong, Italy and the UK have lost market shares. The new production locations in Eastern Europe will increase pressures on existing locations. Finally, if the home market is indeed the largest in the World, it relies mostly on the replacement of existing cars and its growth potential (at least for EU-15 countries) has peaked.

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