

The battle for margin in the automotive industry

Growth at any price?

Automotive OEMs have recently communicated ambitious growth targets. The targeted sales figures also have their price, however. In western markets, automotive OEMs have been fighting deteriorating margins for years. Furthermore the differentiation between premium segment and mass market producers is increasingly disappearing as are the boundaries between individual product segments. The result is that everyone is at competition with everyone else, which requires a high degree of adaptability in managing markets. In the fight for revenue, already saturated markets continue to be flooded with new models. Porsche, for example, wants to make its brand attractive for less affluent buyers and intends to introduce the Cajun, a low cost entry model and small brother of the prestigious Cayenne. Automotive OEMs from the Asia Pacific region are no longer just entering western markets with small size cars, but are increasingly penetrating other segments, in some cases even with former European brands like Jaguar, Land Rover or Volvo. The difficulties in managing traditional markets are forcing automotive OEMs to look elsewhere for profitable growth.

The developing countries which lie in focus of the automotive OEMs, are experiencing above average growth rates with few exceptions, however allow only relatively low margins. In 2010 more than 60 million new passenger vehicle registrations (including light commercial vehicles) were recorded. Roughly 30% of those were registered in Europe, somewhat more than 30% in North & South America, and around 40% were recorded in Asia/Pacific. Until 2020 the Asia Pacific Region (with consideration of potential exogenous shocks, such as stagnating growth or economic downturn) will be expecting an average yearly growth rate for passenger vehicles of around 10%. In comparison, in North- and South-America as well as in Europe the average yearly growth rates of new passenger vehicle registrations until 2020 is expected to be in the low single digits.

As a result, in the year 2020, 60% of all new passenger vehicle registrations will be recorded in the Asia/Pacific region. In order to obtain a sustainable market position, no global player in the automobile sector can afford to not participate in this emerging market. According to Dr. Andreas Kipp, CEO of the top management consulting firm KF² Strategy, “the winners among the automotive OEMs will find a balance between profitable growth, appropriate cost control, and a disciplined, sustainable liquidity management”. Of fundamental importance is that automotive OEMs establish an effective mix of international resources in order to be able to better anticipate the local characteristics. Dr. Andreas Kipp stresses “automotive OEMs must, in accordance with their target markets, innovatively develop their products and resources further and possess a high level of flexibility, in particular pertaining to cultural intelligence.”

In case of questions please contact:

KF² Strategy GmbH
Marketing Department
Ainmillerstrasse 9
80801 München
Tel. +49 (0)89 3885 9232
Email: marketing@kf2strategy.com
www.kf2strategy.com