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Automotive Trends: Prices to be cut by half by Nicolas P. Sokianos

For several years prices of new cars rose as built in technology and performance also increased.

In the year 2004 Renault decided to build a low cost auto in Romania based on a new production system retaining the old brand DACIA. The new car type LOGAN was created to meet the demand in the Eastern European market. However, the success of this car and especially its affordable price (€ 10.000 – 12.000) has attracted the interest of consumers in other countries.

At the same time **Chinese** and **Indian** car manufacturers started their operations aiming for a price of approximately \$ 3.000 – 6.000 to meet their own domestic demand. These cars are not merely poorly equipped and unsafe replicas of “western vehicles” rather they have been designed from scratch.

Needless to say, most western automotive manufacturers have **ignored this trend** for a long time because they could not imagine a demand for such cars within their traditional markets.

Additionally, another global trend occurred to accelerate the drive towards radical changes in the

perception of consumers: environmental changes, global warming and the demand to reduce CO2 emission.

Smaller and lighter cars have a distinct advantage using conventional combustion engines rather than hybrid technology.

Suddenly, the Indian manufacturer TATA has the chance to become the market leader in the production of low cost autos. TATA being a global conglomerate is able to challenge the established players in terms of financing and engineering. While the auto market in industrialized countries is experiencing only moderate growth or in some cases even decline (Japan, USA), none of the industrialized countries will see enormous growth in the coming years.

For example, the Chinese auto market is expected to expand by 140% by the year 2014 making it the second largest auto market in the world behind the USA.

The situation is similar to some extent with the **laptop computer business**. While prices started at DM12.000 in 1998 (€6.000) now they are at a level of €600 – 1.000 despite having substantially better

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technology and performance. This development was triggered by **mass production, digitalization** and the shift of production to **low cost countries**. Naturally not all producers survived, however many have, and continue to be profitable today.

Returning to the automotive industry joint ventures appears to be a logical conclusion to meet the challenges: DaimlerChrysler is partnering with the Chinese producer Chery to develop a low cost vehicle while BMW has partnered with Peugeot to develop and produce engines that can already be found in both companies' cars, and Renault already cooperates with Nissan.

Finally, I would like to make some predictions about the expected price levels in different segments within Europe for the year 2012, five years from now:

Entry segment > €8.000

Middle class > €15.000

Upper class > €27.000

Luxury class > €40.000

Above this price there will be the potential market for superb and hyper sports cars ranging from €120.000 - €500.000.

But the primary sales will come from the first three segments. Based on these expectations this change in market forces will hit several large automotive manufacturers, potentially resulting in merges, takeovers and in the worst case liquidation of manufacturers.

Those companies initially most at risk are suppliers that are already feeling the pinch from price cutting measures.

To survive under these conditions, radical changes in strategy could be required. Such changes will need to be implemented precisely and without hesitation.

Another example like this comes from the computer industry. **IBM**, the innovators of desktop computing have abandoned this core business by selling it to the Chinese company **LENOVO** and are successfully focusing on their services business.

On the other hand another pioneer of network computing, **Digital Equipment Corporation** (DEC), disappeared from business as it was unable to cope with these competitive pressures successfully.

The clock is ticking, is it ticking for you?



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