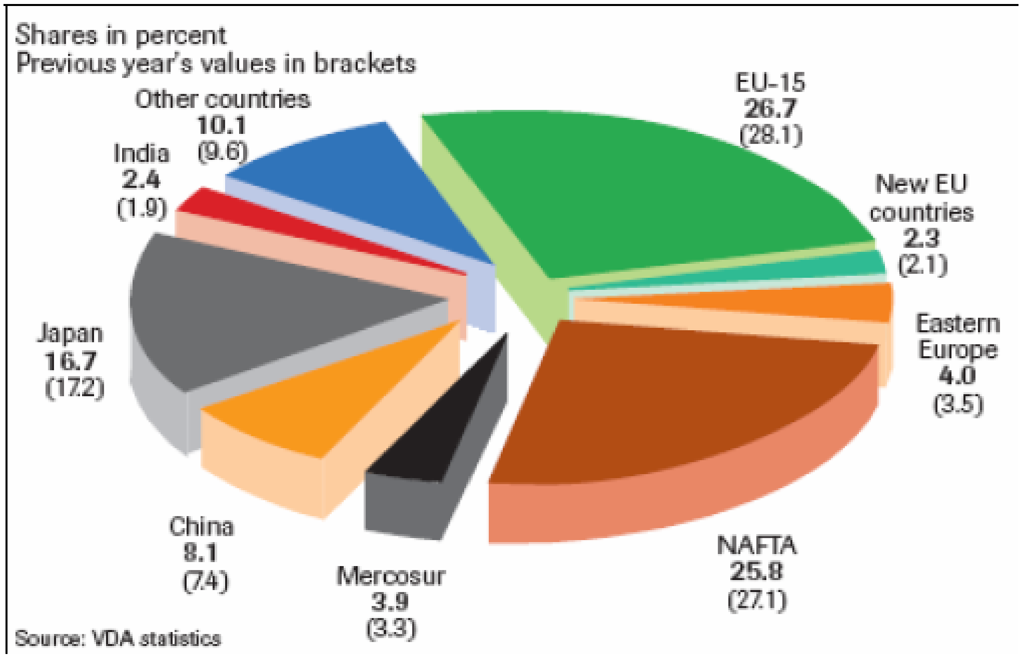
INDUSTRY REPORT: GLOBAL AUTOMOBILE INDUSTRY REPORT

World Automobile Production in 2004



US Market

USA continued to drive the demand, accounting for the sales of around 16.9 million light vehicles. As the share of Big Three fell from 61.8% in 2003 to 60.1% in 2004, Asian brands increased their share from 32.7% to 34.7% in the same period (Table 3). Japan and Korea posted the maximum gains with increased sales of 7% and 8%, respectively. The Mercosur area consisting of Brazil and Argentina also showed buoyant production owing to stabilized economic conditions.

	Units	+/- %	Share 2004	Share 2003
Chrysler Corp.	2,206,024	3.7	13.1	12.8
Ford	3,271,088	-4.8	19.4	20.7
GM	4,357,402	-1.2	27.6	28.3
Big Three	**10,134,514**	**-1.4**	**60.1**	**61.8**
Asian brands	**5,848,828**	**7.4**	**34.7**	**32.7**
BMW	296,111	6.9	1.8	1.7
Mercedes	221,591	1.2	1.3	1.3
Porsche	31.471	10.7	0.2	0.2
Audi	77,917	-9.8	0.5	0.5
VW	256,111	-15.4	1.5	1.8
VW in total	334,028	-14.2	2.0	2.3
German brands	**883,201**	**-3.3**	**5.2**	**5.5**
Total	**16,866,543**	**1.4**	**100.0**	**100.0**

Source: Ward's Communications

European Market-

In the European sector, Germany's domestic production stood at 5.6 million vehicles and another 4.8 million vehicles of German brands were manufactured abroad in 2004 . With the new wave of globalization, VDA members employed nearly 1.5 million people in their international operations

Key Figures of European Motor Vehicle Industry

Production Western Europe ACEA + Others (2004)	Total MV	Mn units	16.9 = 31.6% of worldwide production
	Total PC	Mn units	14.7
New Registrations ACEA + Others EU15 (2004)	Total MV	Mn units	16.3
	Total PC	Mn units	14.1
Employment (2003)	MV Production	Mn people	1.2
	MV+Suppliers	Mn people	2.0
	Total (incl. Indirect)	Mn people	ca. 12
Turnover (2001)	ACEA members worldwide	Bn €	452
	ACEA members Europe	Bn €	271
Investment (2001)	ACEA members worldwide	Bn €	33 = 8% of turnover
R&D (2002)	ACEA members worldwide	Bn €	19 = 5% of turnover
Value Added (2002)	in EU15 (MV+Suppliers)		8% of manufacturing sector
Exports (2003)	Extra-EU15	Bn €	67.2
Trade Balance (2003)		Bn €	33.4
MV in use (Parc) W. Europe (2003)	Total	Mn units	218
	Passenger Cars	Mn units	191
	Average Age	Years	ca. 8
	Density	per 1000 inhab.	492
New PC Registrations / Specifications W. Europe (2004)	Average CC	Cm^3	1746
	Power	(KW)	81
	Diesel	% Share	48.2%
	4x4	% Share	6.9%
Tax Revenue from MV (2003)		Bn €	346 = 8% of total EU 15 General Government revenue = 3.8% of EU 15 GDP

UK Market

Share of Top UK Auto-manufacturers

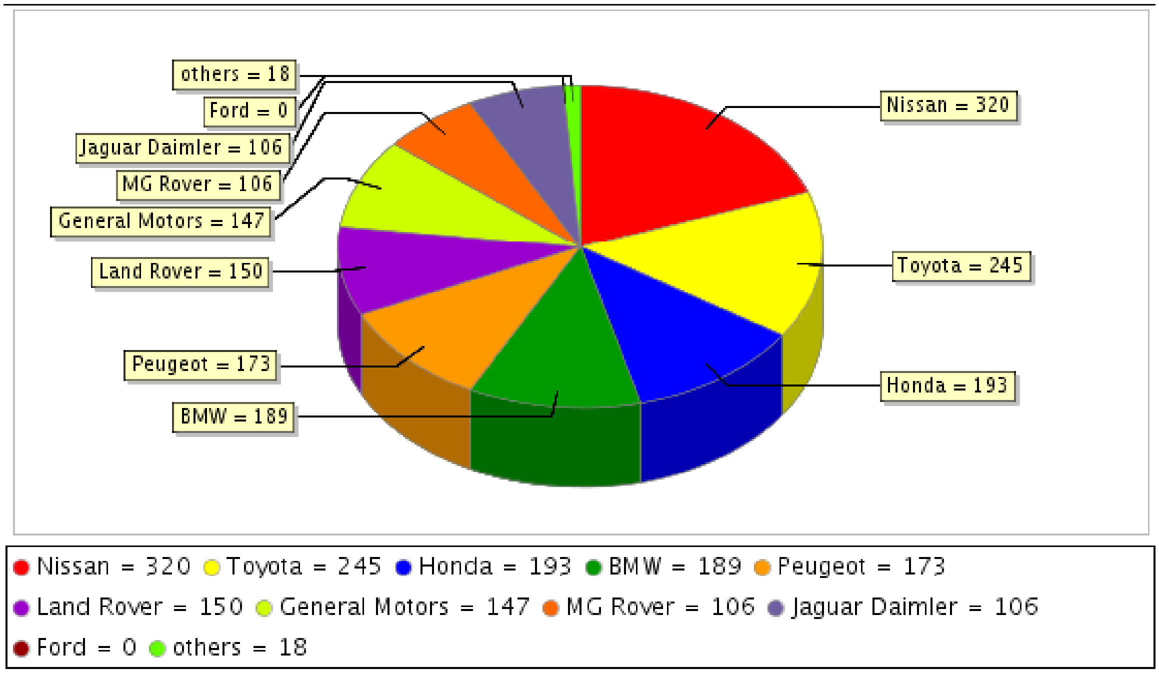
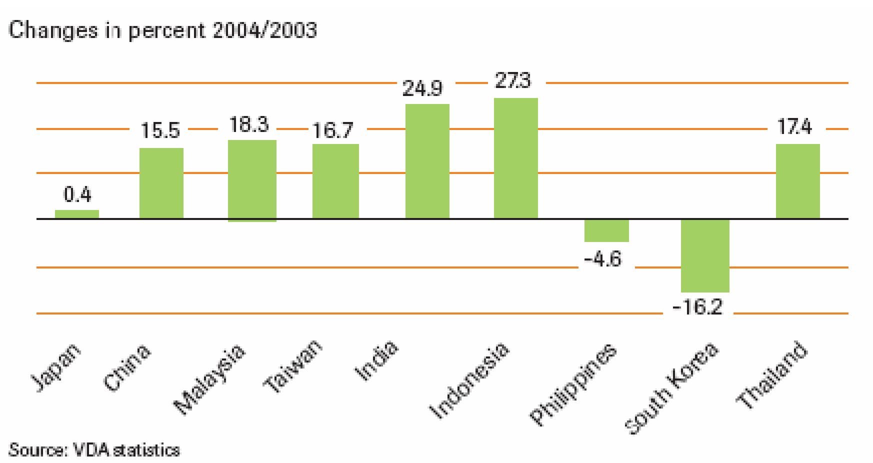


Chart provided by www.jacuba.com

Asian Market

The Asian countries were also registering growth in the demand for new vehicles. Indonesia and India showed significant growth in the registration of new vehicles.



Porter’s Five Forces and SWOT Analysis

Porter’s Five Forces

Globalization had indeed left its impact on the automobile industry. Now foreign auto dealers were facing lesser restrictions to operate in overseas markets. Michael E. Porter in his book “Techniques for analyzing industries and competitors” dealt with five competitive forces that shaped all industries. This helped to analyze the intensity of competition which had an impact on the profitability of an industry.

The US automobile industry was considered as a force to reckon with from the days of craft production and hence would serve as a standard use case to identify Porter’s five forces. With low level of entry barriers, the Big was facing increasing competition from foreign players like Toyota and Honda.

The relationship among Porter’s five forces in the US automobile industry, detailed below clearly proved its’ competitive nature.

1. **Threat of New Entrants** – The existing loyalty to major brands, incentives for using a particular buyer, higher fixed costs, scarcity of resources, high costs of switching companies, and government regulations constituted the barriers to entry which in turn reduced the competition in an industry. The success of foreign car manufacturers like the Honda Motor Co. had disproved the general belief that the Big Three were invincible. The only factors expected to retard the growing significance of foreign auto dealers were the loyalty to American made vehicles and the after-sale services offered.

2. Power of Suppliers – The presence of very few suppliers of a particular product, and the absence of any substitutes for the product supplied reflected the pressure exerted by the supplier. Sometimes the product was extremely important to the auto-maker and the alternatives proved to be very costly. In such cases the suppliers were in a better position to dictate terms. A lot of suppliers depended on automakers to buy their products. But if the automaker decided to change suppliers it would badly affect the supplier’s role in auto manufacturing.

3. Power of Buyers – Small number of buyers, purchases of large volumes, prevalence of alternative options, and price sensitive customers were some of the factors that determined the extent of influence of the buyers in any industry. American consumers were driven towards foreign cars mainly because most of the auto-makers sourced their key auto-parts from different suppliers. But this raised doubts on the reliability of the vehicle itself.

4. Availability of Substitutes – If substitutes were available offering similar services, the likelihood of buyers switching over to another competitor depended mainly on the cost.The cost of the automobiles along with their operating costs was driving customers to look for alternative transportation options. The rising gasoline price was bound to influence the buyers.

5. **Competitive Rivalry –** The presence of many players of about the same size, little differentiation between competitors, and a very mature industry with very little growth were the features of a highly competitive industry. Higher the competition in the industry lower would be the profit margin. To remain ahead in competition, auto-makers were tempted to offer value added services to the customers incurring more costs. Easyfinance options and long term warranties were offered to lure the customers. But these measures cut into the profit margins.Thus the US automobile industry in the face of global competition from foreign firms was offering better deals to cater to diverse needs of customers.

SWOT Analysis

An analysis of the fortunes of Ford, a global leader in the automotive industry based in Michigan, wielding significant influence since the inception of global automobile industry, would serve as a classic example to diagnose the strengths, weaknesses, opportunities and threats existing for auto-makers.

Strengths

• Ford owned a vast array of brand names, which had world wide recognition and respect.Ford, Lincoln, Mercury, Mazda, Volvo, Jaguar, Land-Rover, Aston Martin were the famous vehicle brand names owned by the company. Ford Credit, Genuine Parts & Service and Motorcraft were its' automotive service brands.

• Huge size of the business operations allowed Ford to reap the benefits of economies of scale. As of 2005, Ford's distribution network spread over 200 markets across six continents, supported by an employee base totaling 300,000 and 108 plants worldwide.

• Business diversification initiatives of past decades helped Ford to focus on financing sector in addition to manufacturing, with the help of its subsidiaries. Most of the vehicles sold to dealers and distributors were financed by Ford Credit at wholesale rate. The diverse product line was another positive outcome of business diversification. As of 2005, Ford was the second biggest player in US with a total market share of 18.2%. In Europe, the market share stood at 10.8%.

Weakness

Ford's large size could pose serious impediment to its efforts to adjust to the dynamics of global automobile market. Unlike its Japanese counterparts, Ford had to ride on heavy incentives to boost sales of models, which failed to catch the attention of consumers. Financial Constraints prevented Ford from channeling investments towards the manufacture of new models. Failure to control plant capacity also cut down the profit margin.

Opportunities

The opening up of Asian markets, wherein lied the potential for growth in commercial vehicle sales, offered a big opportunity to Ford in the near future. The big size and extended global reach, which some identified as a weakness, was helping Ford to become a major player in these markets. Meanwhile in the US, consumers in the higher income category were expected to spend more on high-end models more frequently. The growing trend in energy prices[23] was paving the way for a huge market for full and medium sized SUVs and hybrid vehicles with better fuel economy. Despite losing the first mover advantage to Japanese auto-makers, Ford was making headway in this growing market. And in order to leverage on its brand image, efforts were on to differentiate brand identities to the potential consumers. By this initiative, Ford was trying to cut down its incentives. To check capacity issues, Ford made plans to close 10 plants and 30,000 jobs by 2008. Its ultimate aim was to boost capacity utilization to 95% from the current level of 72%.

Threats

The main threat to Ford's market dominance came from Japanese auto-makers, particularly Toyota, whose products were of high quality. Ford was losing out customers, who went for higher quality vehicles from Japanese auto-makers, despite absence of incentives. The negative ratings given by most of the credit rating agencies in 2005 also demanded attention as the decision reflected concerns over Ford's cash flow and profitability, declining market share, excess industry capacity, industry pricing pressure and rising health care costs.