

Hubris and Humility on Show at Geneva

My overall impression of the 2010 Geneva Motor Show was that this is an industry that is in almost complete denial. Senior management teams are struggling to justify their existence by concocting dynamic responses to the current trough in sales. We can perhaps reserve some sympathy for them, given that the lead time for a new model is still around half a dozen years, so vehicles being announced now were actually planned for totally different demand conditions.

At their inception, before the global financial meltdown, there were high levels of consumer wealth, plenty of credit for consumers who could not wait to accrue their wealth first, and rising fuel prices. Under these conditions, the market was set for cars that either used expensive new technology to deliver fuel efficiency gains, or cars that were just plain expensive with no regard for fuel prices. The logical outcome has been cars such as the Toyota Prius, with its expensive technical solution to the environmental problem, and the Range Rover Sport, with its expensive

Ford Goes Back to Basics

Sober minds would suggest that demand at a time of recession and reasonable fuel prices requires products that offer good value in purchase costs along with affordable, if not world-beating, running costs. We would therefore expect cars to be technically orthodox, perhaps offering improved running costs through downsizing. It is for this reason that I would like to ignore all the exotic supercars and wilder concepts to nominate my own star of the show: the Ford Focus Wagon. This is simply the station wagon/estate version of the newest Ford Focus, and it was notable that among the press releases from Ford on forthcoming hybrids and electric vehicles, the firm chose this prosaic model for its headline announcement. It is as if Ford is returning to the spirit of the iconic Model T, offering a product that people need and can afford.

Toyota Loses the Plot

At the other end of the spectrum is the company that could once have claimed to have succeeded Ford as the provider of transport to the masses. The Toyota Corolla is the most popular car in the world, selling in excess of 35 million units over the various generations, comfortably ahead of the VW Beetle's 21 million units and the Ford Model T's 15 million units. It would be reasonable to expect, then, as the company recovers from the embarrassment of its first financial loss in nearly sixty years only to fall into the well-publicised product recall débâcle, that Toyota would give its most important model due prominence. Instead, it chose to reserve the fanfare for two technically complex models.

The most famous of these was the Prius. It has been taken for granted that the Prius is pioneering the gasoline-electric hybrid solution to emerging environmental problems and looming oil shortages, so it requires a painful reassessment to realise that it is not the answer to the current short-term financial crisis. True, the latest Prius has been the biggest selling mainstream car in Japan since its first full month on sale in May 2009. However, the model has

enjoyed the temporary sales incentive of Japan's own version of the scrappage scheme, as well as an ill-judged policy by the company to set a very low price in the first place. This has rendered the Prius a veritable bargain and hammered sales of Honda's own hybrid, the new Insight. This had been designed for a market segment well below the Prius, but then found itself competing head to head on price. Even more disastrously, the price of the Prius overlaps with Toyota's own Corolla, and loyal Corolla customers have taken the entirely rational decision to buy the more highly specified Prius.

Cannibalisation between models is never beneficial for a company, but to encourage customers from the Corolla, perhaps the most efficiently manufactured car in the world, to the high-cost, under-priced Prius, is a sure sign of a company that has become infatuated with its technological advances. Indeed, Toyota has compounded the problem by launching other hybrid-only models, these being the Lexus HS250 and the related Toyota SAI saloons. Toyota appears to have mislaid one of the great principles of mass production, which is to exploit economies of scale by offering as many variants within a model range as possible. Yet by designing these models solely as hybrids, Toyota seems to be tacitly acknowledging that hybrid customers, first and foremost, want their cars to indisputably advertise their environmental credentials. Heaven forefend that a Prius, HS250 or SAI bodyshell should ever clothe a conventional powertrain, yet this is exactly how other mass produced model ranges attain profitability.

A year ago, at the Paris Motor Show, Toyota had revealed its diminutive iQ, a high technology, high price car with seating for three adults and one child (sometimes known as a 3 + 1). Not surprisingly, demand has not been high for such an oddity when consumer finances are tight. If Toyota's second star turn at this year's Geneva show had been more sensible then perhaps it would be possible to sympathise with the company's recent travails. Yet the unveiling of a supercar, the 200mph £340,000 Lexus LFA, in the middle of a recession when Honda had long cancelled its own NSX rival, suggests that the company has locked itself in its ivory tower and thrown away the key. Toyota has an urgent need to return to its roots as a manufacturer of reliable, affordable cars for the masses before rivals begin to invade its traditional strongholds.

Hyundai-Kia Wins Scrap

The Hyundai-Kia group has been busily hammering this point home since scrappage schemes around the globe starting pulling in buyers from the used car market, as governments around the world tried to keep their national car factories ticking over. The lower-echelon buyers have tended to enter the new car market at the bargain end, which in Britain is best represented among these South Korean brands. The global cumulative effect for Hyundai in 2009 has been an increase of 11.7% in global sales and a healthy net profit of around £17 billion at current rates. Kia, meanwhile, boasted of a 20.1% increase in sales.

It may be a coincidence that Hyundai-Kia has achieved world standards with its orthodox models just at the time when the world markets needed them most, and before the company had time to start dallying with the new technological fancies. Hyundai had already launched itself into the premium segments with its Genesis range to rival brands like BMW and Lexus. Yet, instead of offering bona fide competition in the higher reaches of the car market, Hyundai-Kia may find that it attracts precisely those who are looking to downsize away from established premium brands. At the Geneva show, Hyundai-Kia had little to excite the journalists, but for this very reason it will continue to attract customers seeking value.

Growth or Profit?

For those looking for growth, the main markets are China and India. It is often supposed that growth in these markets will allow local manufacturers to develop to the point where they can challenge the global brands on the world stage. The 2010 Geneva Show demonstrated that this threat lies in the distant future. Despite the emergence of local brands, both these markets are dominated by overseas companies. In India, this means Suzuki, which has no intention of relinquishing its 50% hold on the market. Tata is making gains, but Suzuki's main challenger appears to be Hyundai, while Ford is also showing promise. These foreign giants are able to exploit their global resources in a way that Tata can only dream of. Granted, Tata now owns Jaguar-Land Rover, but the British luxury car group is technically at the opposite end of the industry from Tata and the possibility for joint projects must be minimal. In any case, Jaguar-Land Rover has its own set of problems for which Tata's contribution is simply to provide the cash.

The big volume growth is occurring in China, thanks to the government's aggressive stimulus programme. There is also strong official support for the local industry, with foreign brands limited to joint ventures where they are permitted to hold no more than a 50% share. The exception is Honda, which has a wholly-owned Chinese plant that manufactures for export. If one presumes that this is a strategy by Honda intended to benefit from low labour costs, one has to ask why no other manufacturers have followed suit. The simple answer is that automotive manufacturing, wherever it happens to be, is a highly capital intensive industry where labour costs play a relatively minor role. Exploitation of scale economies through full capacity utilisation is of much greater importance. Since the Chinese market is already huge, the build-up of local output is primarily aimed at satisfying local demand. Even with the enforced joint ventures, the Chinese industry is still dominated by foreign firms. Local companies like SAIC, Geely and BYD are showing promise with their independent growth strategies, but the competition at home is fierce enough without contemplating taking the fight into the world market. It will be many years before the Chinese brands can threaten Western firms in their home markets.

The volume expansion that will be observed in China and India will continue to be impressive, but growth in a capital intensive industry comes at a high price and the heavy investment requires years of profit. These are also markets that demand affordable prices, the Tata Nano being the extreme example. Though the increases in sales volumes will be impressive, the most

lucrative business is done with customers who are willing to load up their cars with a choice selection of gadgets and gizmos. As Toyota and Honda know so well, this means that the most important market in the world remains the United States. The Big Three - GM, Ford and Chrysler – are now fighting for their lives, and mounting a counter-attack on import brands' hold on the passenger car market, their light truck and SUV offerings having come under threat from Asian brands and intensifying environmental pressures.

As it has demonstrated at Geneva, Ford has come under the spell of common sense. While GM was imbibing heavily at the alternative technology party with its Chevrolet Volt when it should have sobering up with more sensible products, Ford has instead returned to the more puritanical principles of its founder. Americans are being offered increasing numbers of small front-wheel-drive cars, which no longer depart from other versions round the world except in detail. Gone are the days when the Escort for the European market could undergo such a fundamental adjustment for the American market that it ended up as a completely different car that looked almost exactly the same. With a range of true global cars, Ford is not launching a new strategy for the industry, it is simply relearning the principles that define it.

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