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RESEARCH ARTICLE

TRENDS AND PATTERNS IN PASSENGER CAR MARKET OF BRIC COUNTRIES

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ABSTRACT

The Detroit branch of Boston Consulting Group predicts that, by 2014, one-third of world demand for automobiles will be in the four BRIC markets (Brazil, Russia, India and China). What started as an exploration of new markets for car sales in the early 90s has gone on to become the mainstream market of the new millennium. Supported by attractive macro-economic factors such as growing economic activity, urbanization, rising household incomes, and developing credit markets the BRIC countries currently make up for the top 7 automotive markets globally. This paper attempts to analyse the trends and growth patterns in passenger car market in BRIC countries from 2002 to 2011.

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INTRODUCTION

Automobile industry is a symbol of technical marvel by human kind. Being one of the fastest growing sectors in the world its dynamic growth phases are explained by nature of competition, product life cycle and consumer demand[i]. The BRIC are both the fastest growing and largest emerging market economies. They account for almost three billion people, or just under half of the total population of the world. In recent times contribution of BRIC to world's GDP growth is significant. BRIC holds the world's two most populated countries and another two with considerable populations. China alone holds one fifth of the world's population, and is closely followed by India (17.22%) and, by a larger gap Brazil (2.74%) and Russia (2.04%). Even though it is BRIC according to importance it should be CIRB. At this juncture, the study makes an attempt to evaluate the trends and patterns passenger car market in BRIC countries (viz. Brazil, Russia, India and China).

Objectives of the paper

- To analyse the trends and growth patterns in passenger car market in BRIC countries during 2002 to 2011.

Secondary data from OICA and EIU pertaining to 2002 to 2011 are used for analysis. Sources include websites, journals and newspaper. Compounded average growth rate is used for data analysis.

Brief Review of BRIC Countries

Brazil

Brazil, the 'B' in the world's BRIC economies shows rapid and consistent economic growth for the past decade, turning it into one of the world's most vibrant and most looked at economies. With an average growth rate of 3.5% since 2000, it was only in 2009, in response to the general cooling of the world economy, that Brazil saw a small contraction of –0.2% in GDP. Brazil is one of the first emerging markets to begin global economic recovery. Bolstered by strong domestic demand and a growing middle class, Brazil weathered the economic downturn better than most major economies and grew 7.5% last year[ii]. With a population of 190.7 million, Brazil car sales are up a massive 21% year-on-year over the first half of August 2012[iii]. While this growth is impressive, market growth is forecasted to decelerate slightly over the period 2009 – 2014 with a forecast compound annual growth rate (CAGR) of 9.6. VW, GM, Fiat and Ford dominate Brazilian market and smaller players still have a high growth forecast, real opportunity to increase sales volume. Small brands like Hyundai making strong year-on-year gains are a highly competitive but attractive segment. Brazil is the world's fifth largest car producer[iv].

Market share of Players in Brazil Car Market

Table 1: Market share of Players in Brazil Car Market

Company	Market Share
Volkswagen	20.95%
Fiat	22.84%
General Motors	19.75%
Ford	10.10%
Citroen	2.52%
Peugeot	2.71%
Hyundai	3.18%

Source: Fenabrave, 2011

Market share in Brazil car market is dominated by four main players. The three main contenders in 2010 being Volkswagen with 20.95% share, Fiat with 22.84% share and GM with 19.75% share. The fourth place is held by Ford, and while their

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share is noticeably lower at 10.10%, a global brand Ford is never to be underestimated. The remaining 26.36% of the market is comprised of other brands including Hyundai, Peugeot, and Citroen[v].

Russia

The Russian market is regularly referred to as “untapped”, “a gold mine” or “very promising” but also “risky” and “challenging”[vi]. With a population of 141 million Russia is an attractive market, measured by the number of potential consumers. With a pre-crisis GDP-growth of 8% and a post-crisis growth of 4%, Russia’s economy is growing fast, compared to other European markets. The Russian automotive market was hit severely through the economic crisis in 2009. The new car market collapsed to 50% of the volume of 2008. The crisis led to a situation that Russian brands lose strongly or even go out of business in the future. Today, it looks like some Russian companies will play a major role in the automotive market in the future, driven by the increased attention during the economic crisis. The consumer potential together with increasing income makes Russia one of the most attractive markets for the world automotive industry. The Russian car market will be one of the fastest-growing vehicle markets in the world over the next ten years. The enormous opportunities presented by the Russian market have already attracted most of the major auto-manufacturers there as they compete to establish a presence in a country where sales of foreign car models increased by 100% over 2005. Nine straight years of consistently high GDP growth, along with political stability, high commodity prices, and a great influx of foreign direct investment, have transformed Russia into a modern and vibrant 9th biggest economy in the world. Russia is already a bigger economic market than both India and Brazil, and is aiming to become one of the world’s top five economies by 2020.

Market share of Players in Russian Car Market

In order of current market share, Chevrolet leads the way for parent GM, with 6% of all new cars sold in Russia in 2011. Renault, Hyundai and Kia follow, each with about 5.9% of the new sales market. In the third tier, Nissan, Toyota, Ford, Volkswagen and Daewoo all captured 3.6% to 4.5% of Russia’s new car buyers, and Mitsubishi rounds out the list with a 2.8% share. Mitsubishi may have the smallest share of existing car sales in this basket, but it is growing the fastest off that low base. Even though market share of Avtovaz has dropped from 28% to 23 % in 2011 due to increased competition as the domestic producer company is still the overall leader [vii].

India

India represents one of the world’s largest and fastest growing automobile markets. De-licensing in 1991 brought revolutionary changes in the industry and provided well-deserved and timely growth impetus to the industry. This attracted foreign auto giants to set up their production facilities in the country in a bid to take advantage of various benefits offered by the industry. Large middle class population, improving income levels and strong technological capability have been boosting automobile demand in the country for past few years. Even in the wake of economic slowdown, the industry sustained its positive growth momentum mainly because of strong domestic demand for passenger cars. The passenger car market, which constitutes around 78.5% of passenger vehicle sales, has immense growth potential. In 2009-10, Indian passenger car industry was one of the few markets globally that evaded the recessionary trend and it has been witnessing a growth of 4.66 percent in 2010-11[viii]. The industry’s growth is driven by various factors such as the economic growth of the country, rising disposable income, relatively low car penetration and availability of financing options. India is expected to become the world’s third biggest car market by 2020.

Market share of Players in Indian Car Market

In passenger car segment still Maruti Udyog is the leader with 51.03% market share followed by Hyundai Motors with 18.10% and Tata Motors with 16.63%. Other players in this segment are Honda Siel Cars and Ford India Pvt. Ltd.

Table 2 Market Share of Passenger Car Sales in India in 2010

Company	Market Share
Maruti Suzuki India	51.03%
Hyundai Motor India	18.10%
Tata Motors	16.63%
Honda Siel Cars India	5.52%
Ford India	3.70%
General Motors	1.58%
Hindustan Motors	1.16%
Skoda Auto India	1.16%
Toyota kirloskar Motor	0.72%
Fiat India Automobile	0.20%
Diamler Chrysler	0.19%

Source: EIU

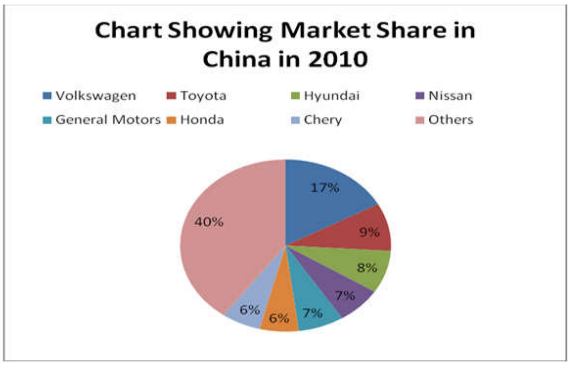
China

The passenger car industry in China has been witnessing a persistent development with the vast consumer base having more purchasing power, and improved road infrastructure. The production of passenger car has been continuously gaining advantage from the country’s growing popularity as a profitable manufacturing hub and rising investment by many international players. The domestic passenger car production in China will surge at a CAGR of around 16% during 2011-2014. During 2010, the demand for passenger cars had increased radically in China, which has also been making every possible effort to become the world’s leading producer of new energy vehicles, like electric cars and hybrid cars. Among passenger cars, small car segment is attracting attention of the international automobile manufacturers, which are currently enjoying the stupendous growth. In fact, production of small cars grew by around 29% at the end of 2010.

Market share of Players in Chinese Car Market

In the new automotive policy the government continues to encourage the domestic players over the foreign OEMs. Global auto OEMs have been able to establish presence but primarily through joint ventures. As of 2010, the market was fairly fragmented with the top 7 players making up for only 60% of the market. In passenger car segment Volkswagen is the leader with 40% market share followed by Toyota with 17% and Hyundai with 9%. Other players in this segment are Nissan, General Motors, Honda, Chery etc[ix].

Figure 2



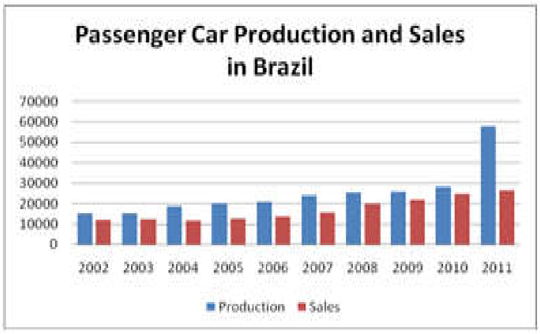
Source: EIU

Production and sales trends in BRIC

Brazil

From the figure 3 it is evident that in Brazil production of passenger cars is higher than sales which can be the outcome of following reasons. Automobile manufacturing plays a key role in Brazil's economy. In fact, Brazil is the world's sixth-largest production location, with more than 50 manufacturing facilities with a total capacity of around 4.4 million vehicles per year. The automobile sales in Brazil are highly dominated by the passenger cars and motorcycles[x].With a total production of 2.5 Million Units in 2011, Brazil represents one of the largest producers of passenger cars worldwide. The country's passenger car production has been continuously gaining advantage from its growing internal demand and popularity of Brazil's compact cars in overseas markets. However, the production levels have been declining due to inappropriate production proportion of flex fuel passenger cars and other conventional fuel-driven cars. Sales for passenger cars in Brazil are cyclical. Since 2005, stabilization of inflation and exchange rate has been stimulating the development of new financing options. Besides with a strong recovery in real incomes car purchases increased. Further, according to a recent report by RNCOS, "Brazil Automobile Forecast to 2014", stable long-term loan interest rate enabled Brazilians to go for cars easily; which thereby, propelled car sales to touch 2.65 Million Units in 2011[xi].

Figure 3

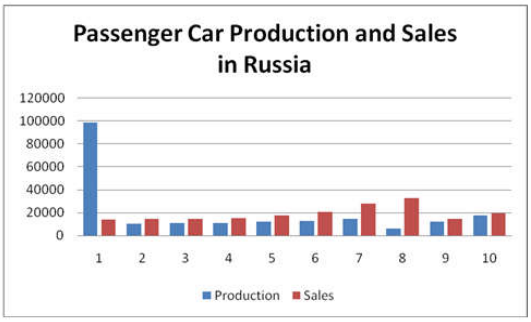


Source: OICA

Russia

It is obvious from Figure 4 that except for the year 2002 for all the other years' sales in Russia exceeded production. Production reached its highest in 2002. From 2003 onwards sales exhibit an increasing trend than production. This may be because the government maintained lower interest rates and good liquidity levels for consumer borrowings that resulted in strong growth of car sales. Besides the Russian government introduced a stimulus program to promote new car sales by providing rebate certificates for the replacement of old cars starting in March 2010 which can also be a reason for increase in sales. The gap between production and sales can be reduced by imposing higher import tariffs to prompt local production by more global manufacturers.

Figure 4

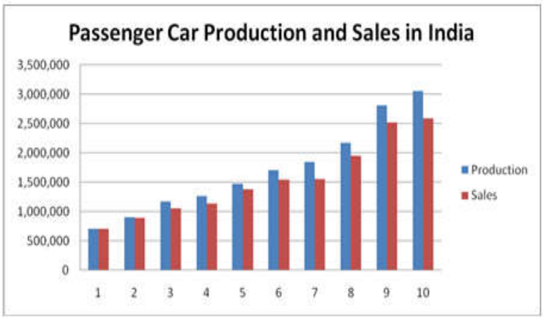


Source: OICA

India

In India, production matched up with the sales in 2002 and 2003 (Figure 5).From 2004 to 2011 sales started declining. The slowdown in sales may be due to constant price revisions of fuel leading to highest petrol prices, inflationary pressures resulting in rise of lending rates, labour unrest at leading carmaker Maruti Suzuki India Ltd, delaying delivery of cars etc[xii].

Figure 5

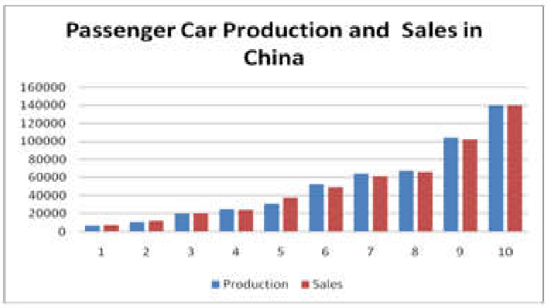


Source: OICA

China

Among the BRIC countries China exhbits a steady growth from 2002 to 2011. Rapid growth in economy with very low levels of car ownership clearly establishes the growth potential of the Chinese market. Over the decade both production and sales have grown at almost equal levels (Figure 6).

Figure 6

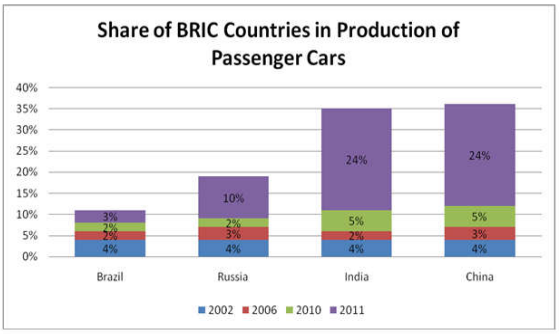


Source: OICA

Share of BRIC in Production of Passenger Car

The chart below represents the share of Brazil, Russia, India and China in production of passenger car market during 2002 to 2011. Share of Brazil is 3 percent in 2011. Russia's share in production increased from 4 percent in 2002 to 10 percent in 2011. India and China's share in production has grown six fold. The share of production of Russia, India and China has risen at a great pace throughout the decade.

Figure 7



Source: OICA

Car Sales Growth in the BRIC Markets

After a decade of growth and a strong post economic crisis recovery in 2010, three of the four BRIC economies seem to have apparently lost the growth momentum. Growth in car sales in Brazil, India and China has substantially slowed down compared to their respective Compounded Annual Growth Rate (CAGR) and 2010 growth figures which are evident from Table No: 1. One of the significant reasons for the slowing down could be attributed to the incentives provided by the governments in each of the BRIC countries. Countries like China and Brazil have imposed newer pre-recession period taxes that have resulted in higher buying prices. India and Brazil have also tightened credit markets by increasing lending rates to contain inflation. Russia, on the contrary, is the only market to be sustaining a high growth rate in 2011 and this is because of the continuation of government incentives to the auto sector.

Table No. 1: Growth in the BRIC Markets after recession

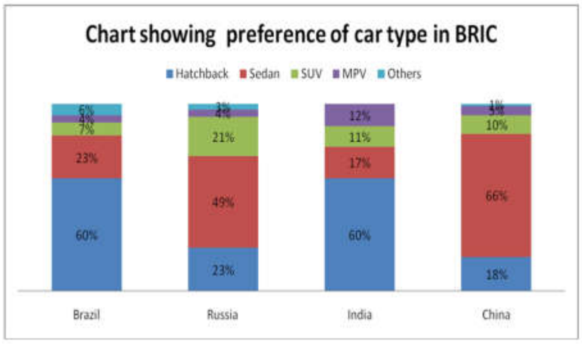
	Brazil	Russia	India	China
CAGR (2002-2011)	9%	6%	14%	35%
2010 Growth	7%	30%	27%	37%
2011 Growth	5%	28%	3%	4%

Source: OICA, EIU

Preference of car type in BRIC

From the figure 8 it can be inferred that in Brazil consumers have a strong preference (60 percent) for hatchbacks. This is partly explained by the fact that Brazil has always been a high interest economy with lending rates amongst the highest of the BRIC group. Thereby, even smaller cars are relatively costlier for consumers. In Russia sedans (49 percent) are the preferred car type partly owing to the fact that Russia has a higher proportion of high income households. In India similar to Brazil hatchbacks are most preferred segment (60 percent) by consumers. Encouragement from the government tax policies for the automotive industry can be the reason. Chinese consumers prefer Sedan (66 percent). Hence it can be concluded that among the BRIC countries Brazil and India exhibits the same type of preference and Russia and China have a same preference.

Figure 8



Source: EIU

Major players in BRIC Passenger Car Market

- The top 5 players namely Volkswagen, Fiat, GM, Ford and Peugeot make up for about 80% of the Brazilian automotive market.
- In Russia more than 8 players make up for about 80% of the passenger car market. The top 5 players are LADA, GM, Ford, Hyundai and Renault-Nissan.
- The top four players namely Maruti Suzuki, Hyundai, Tata Motors and Mahindra & Mahindra constitute 80% of the Indian passenger car market thereby making it a highly concentrated market.
- The Chinese market is dominated by the local players who have formed joint ventures with MNCs like GM and Toyota. The market is fragmented with the top 7 players making up for only 60% of the market. Players include Volkswagen, General Motors, Toyota, Honda, Hyundai, Chery and Nissan.

Conclusion

For at least the next decade, the future of the automotive industry lies in the BRIC countries. The analysis indicates that Brazil representing one of the largest producers of passenger cars worldwide has been continuously gaining advantage from its growing internal demand and popularity of Brazil's compact cars in overseas markets. Economic and currency instability makes the Russian market unpredictable in the short term. Russia even though there is a gap in production and sales by imposing higher import tariffs to prompt local production by more global manufacturers the gap can be reduced to a great extent. India is showing a decline in sales due to constant price revisions, increase in lending rates and unrest in Maruti.As far as China is concerned production and sales is exhibiting a constant growth. Even though BRIC economies seem to have apparently lost the growth momentum with regard to sales companies must devise country-specific approaches to localization, as well as strategies that span all four countries since these countries differ dramatically in market development and local capabilities, as well as in consumer preferences[xiii].

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