

HELMUT BECKER

High Noon in the Automotive Industry

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Helmut Becker

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With 86 Figures
and 29 Tables

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Preface

This book was born from curiosity.

To begin with, it was the curiosity of an *economist* who studied in the 60's in an environment which has subsequently developed from *national* into *global economics*. Who has to recognize that politicians, scholars and large segments of society oblivious to supranational authorities and economic globalization forces continue to labour under the notion that they are still fully autonomous and sovereign when shaping national economic policy. And pretend as though their own national state were still the "master in its own house" that despite unbridled market economics could continue to dictate to the economy and companies how to live and in which "rooms".

All that has become fiction. The *laws of globalization* diminish the *manoeuvring space for shaping* national economic policy. Even if many folks today don't want to hear it: The issue is no longer achieving what is socio-politically desirable for the own society but rather the optimal adaptation of society and social benefits to the politically practicable.

By the collapse of communism and the bipolar political world at the latest, the general conditions under which the established industrialized nations could act economically had changed fundamentally. Whereas up to then only the free market-based national economies with just 1/5 of world's population were allowed to take part in the annual competition for the highest GDP growth rates, the title of the "world export champ" or the greatest standard of living increase etc., this pool was abruptly enlarged at the beginning of the 90's to about 4/5 of mankind.

Since then the rules of the game for global competition have been redefined. All of a sudden, economies with huge raw material and labour resources as well as high "unsaturated" market potentials announced their claims to take part in the competition. The process of globalization began. And it developed with breathtaking speed! Barely 15 years have passed since the iron and bamboo curtains fell, and discourse about economic policy in western industrialized countries is already ruled by growing concern over the consequences of this *globalization* for prosperity and jobs,

and in Western Europe, particularly Germany, capitalism bashing in turn is becoming ever louder.

The economist faces a series of questions: What happens when a national economy is replaced by the global economy? What happens to a highly developed national economy that suddenly has to deal with competitors in a global marketplace who boast almost equal productivity and quality levels but highly unequal wage levels?

That is one source of curiosity. The other is a by-product of the author's close relationship to the *automotive industry* and its analytical and strategic problems which have occupied the major part of his professional life. Because as it happens this industry represents one of the key sectors, especially in high industrialized countries as Germany, particularly affected by the rapid change in the fundamental structure of the global economy. On the one hand, there is the global re-evaluation of production locations due to significant differences in factor costs, sometimes as close as in their own backyards. On the other hand, there are unmistakable growth limits in their primary markets. The result has been a free-for-all battle over market share!

The automotive industry thus has to bear the double burden of market and production site competition. So the key questions are: What happens in and to an oligopolistically structured industry when the foundation is abolished on which it's post-war growth, high profits and social prestige had rested? How will the oligopolists involved react? Which solutions does competition theory offer for the relentlessly intensifying battle over market share between those involved? As the industrial nation with the highest structural dependence on cars, what employment and social benefit issues does Western Europe have to come to terms with? Does Germany's automotive industry as that on top of the cost-iceberg still has a chance in the long run? Can the German automotive industry survive the global adjustment process?

This book is nevertheless not written from German but from global view. It should bring some clarity to the expected global trends and structural changes in the automotive industry and in the national economies most affected by it. However, it must be conceded that, considering the global economic dynamics and complexity of the material, gaps in these findings will be unavoidable, not because they were overlooked, but because they simply are not yet clear in spring 2005. And the author does not have the powers of Nostradamus!

This refers especially to the future role of China and the Chinese automotive industry. The fact is that within a mere decade China, both as sales market and production location has turned into to the third biggest automobile country in the world (passenger cars + trucks) after the U.S. and Japan. This was of no consequence for the "old" automotive world and thus also for this book, insofar as Chinese automobile manufacturers hadn't been present as exporters in the global market and, beyond its borders, Chinese brands were more condescended to than regarded as competitive. This has changed, too! Recently plans have become public in which national Chinese automobile manufacturers (Chery, Geely, Brilliance, SAIC) in the future want to enter in the competition not just as exporters on the world market but even with their own assembly plants in Europe beginning in 2007. And there's more: Between the printing of the German and English editions of this book, the first "land winds" – off-road vehicles made entirely in China – have swept across Europe's coast, and at breathtaking prices.

For now, all the necessary information is lacking for any reliable estimate of the concrete market effects of China entering the world market. Only one thing can be said for sure: The opening bell has sounded on a new round of predatory global competition! Its initial effects will not be visible and thus accessible to an economic trend analysis until 2010 at the earliest.

This book wishes to banish the illusion that all western manufacturers and suppliers can successfully handle the unavoidable adaptation to the pressures of predatory competition. No matter how "smart", "quiet" or otherwise the "revolution" of the added value chain in automobiles may be, economic efficiency gains from global competition are not for free. A single business cannot alter the predetermined global trend. It can only adapt better than its competitors – or give up.

The same is true without exception for national economies. This book attempts to get their political and social "management personnel" to realize that no highly developed, liberal and free market-oriented economy in the triade-countries can offer pain-free solutions or "panaceas" for the necessary adaptation to such an accumulation of shock-like changes in the international economic environment. In this respect Germany is not standing alone, but is standing in the first row! Therefore the "German case" and the solutions that will be finding here will be of special interest for all other automotive western countries. However, the burden of adaptation can be kept as low as possible by returning to the familiar old virtues of rolling up sleeves and common sense and flexibly and bravely preparing for the

inevitable, perhaps even drawing advantages from it. For the *global economy* doesn't just mean risks for the old industrialized countries but also opportunities.

It must be admitted that the results of the forecast through 2015 and the conclusions drawn from it are not pleasant *ad hoc*, either for the automotive industry, economic policy or the individual social groups affected. But it is well known that "Self-awareness is the first step toward improvement." The future for the *old economies* is not to be won by timidly adhering to the past or *in the sleeper car* (German President Horst Köhler) but only with a boldness for global competition and readiness for change. Although Germany has a lot of homemade problems it can nevertheless be taken as an example for the global community. If the German economy hadn't once already summoned up this pioneering spirit after the war, there wouldn't have been any "economic miracle". In other words: fighting famine with diets is no strategy. If this book is able to contribute to a renewed faith in this home-grown strength in all highly developed countries under global competition pressure, the effort will surely have been worthwhile.

Books of this kind have many fathers. I am very obliged to Adolf Ahnefeld and Franz-Josef Wolf for numerous suggestions and above all for the encouragement to finally take a critical and unvarnished look at the future of the global automotive industry from a theoretical perspective of global competition. Likewise many thanks to Werner A. Müller as well as Ruth Milewski of Springer Verlag who made the publication of this book in the present form possible through their kind suggestions on its form and contents.

Special thanks are due to my assistant Juri Dutka for his indefatigable research work, analyses, conception and calculation of the IWK Survival Index (*ISI*), creation of graphics etc. Also great thanks to Niels Straub for his expert contributions on the components supply industry and the almost daily updates with new reports about labour agreements, location shifts, suppliers takeovers etc.

Finally, I would like to thank my wife for her critical scrutiny of substantial passages of text and for kindly letting me spend so many weekends with my manuscript.

Helmut Becker

Munich, May 2005

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Introduction

"The important thing is not to stop asking"

Albert Einstein

Globalization, market saturation, falling prices, market atomization through endless model offensives by all manufacturers in every imaginable market segment, innovations of sometimes questionable customer benefit, and the increasing technical and organizational complexity of the product automobile characterize the demands of the automotive industry at the beginning of this 21st century.

The battle for markets and clients in the sector has reached an unprecedented ferocity. The consequences are far-reaching structural and regional reorganization along the whole added value chain. For manufacturers, and particularly automobile suppliers, this means clear strategic business plans are necessary to protect their future sustainability. The focus is increasingly on "stay or leave" decisions with regard to present markets and traditional production locations. The latter in particular is hitting Germany.

Exhaustive treatments are legion by scientists and management consultants about

- the coming reorganization of the added value chain in the industry, including projections down to the last cent about future sales-based work division between manufacturer and supplier,
- success factors for manufacturers and suppliers in the future added value chain,
- as well as exact proportional forecasts of technological trends in the product and production process.

Their knowledge normally is based on the customer surveys of consultancies relevant to specific links in the added value chain (manufacturers + suppliers), or it is comes from technology trend updates by scientific and technical research groups.

All these studies are valuable and offer those original equipment manufacturers (OEMs) and suppliers important strategic advice on how to act in order to protect their profitability and competitiveness. All the while they fail to note that in oligopolistic markets like today's automobile market the simultaneous implementation of the measures they suggest is of little use to those involved when the result is in an even more tense competitive situation with ever lower yields. Because not only the consultants but also the measures have their costs.

The discount battles that have been raging in recent years between U.S. manufacturers in the American automobile market are a good example for this: The endogenous growth dynamic of the U.S. automobile market as a whole has been unaffected by the discount campaigns of the various manufacturers, meaning its development has been and will remain predetermined exogenously by the macroeconomic / overall general economic conditions. Instead every U.S. manufacturer reported individual heavy losses on the micro level, making the American consumers glad because their "consumer surplus" rose with the fall in prices. Thus it follows: In narrow oligopolistic markets, if equally strong suppliers are running at the same speed in the same direction, nobody will get ahead! That's just the way economic theory is.

Individual measures by individual manufacturers/makers don't change the market. If a market is showing long-term (structural), non-temporary (cyclical) overcapacities, capacities have to be reduced, meaning makers will have to leave the field – all these business management prescriptions won't help! It may well be correct, say, that the part supply industry's share of global automobile added value in the next 10 years will increase by 12 % or more than US\$ 300 billion, corresponding to the current GDP of Switzerland, at the cost of the OEMs. But this totally neglects the fact that, because of increasingly intense global competition for macroeconomic reasons, the number of OEMs and suppliers will nonetheless shrink considerably. The forecasted added value increase clearly won't reach everyone. Therefore the strategic imperative for both manufacturers and suppliers must be to take a stand such that one can cross "the finish line" with the others. And if, like Toyota, the goal is to win, then one has to be particularly good.

Thus, one thing becomes obvious: The question of why are rarely asked in traditional, purely microeconomic consultants' recommendations. What reasons, what general macroeconomic conditions are driving the expected market changes now and in the future? What will happen if the subjective estimations provided by those parties are wrong? Or if exogenous struc-