



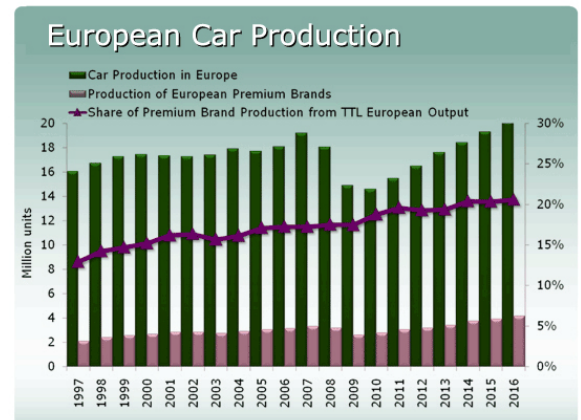
Analysis: Vorsprung durch Premium

By Björn Hütter, Senior Analyst, European Vehicle Production Forecasts

The maker of Audi vehicles has been using the slogan "Vorsprung durch Technik" ("a lead through technology") in marketing communications since 1971, though this is not limited to Germany. As the premium segment is forecast to rebound in 2010, so are the production levels of the brand and its set of relevant European contenders. Historically, the premium brands considered in this article (i.e., Audi, BMW, Jaguar, Land Rover, Mercedes Benz and Porsche) have been able to increase their share of total European car production. In 1997, these brands accounted for 12.2% of European car output, steadily climbing to 16.7% in 2009 - a trend expected to continue through the current forecast horizon.

The following three factors contribute to the increasing share of production from premium brands in total European car output:

- Since premium manufacturers must spread the investment needed for an additional production location over lower volume, they find it more difficult to set up new plants outside of Europe than mass producers such as Fiat or Volkswagen.
- Before being able to set up a facility in new markets, a mature local supplier base is a prerequisite. While this argument is also valid for mass producers, premium manufacturers will have even higher demands in terms of consistent quality and delivery.
- With the introduction of new models to high-volume segments such as the C-segment, premium carmakers have been able to broaden their customer base, tapping into new market potential. Examples include the introduction of the Mercedes A-Class in 1997 and the BMW 1 series in 2004.



The crisis lashed out hard specifically at manufacturers of premium vehicles. While global vehicle sales volume declined by about 4% in 2009, sales of premium makers declined by 10%. On their home turf, sales of premium brands fell even further. In Western Europe, BMW declined by 15.3%, Mercedes fell by 13.3%, Land Rover declined by 21.7% and Jaguar decreased by 19.4%.

In an attempt to diminish the impact of the crisis, many European governments in countries such as France, Italy, Spain and the UK introduced incentive schemes in late 2008 and 2009, resulting in Western European sales (EU15) growing a moderate 0.9% to 13.15 million units in 2009. From a segmental perspective, the great beneficiaries of the incentives were the mini to compact car segments. Makers of low-cost brands saw tremendous growth in Western Europe. Sales of Renault's Romanian branch Dacia grew by 95.0%, Hyundai sales increased by 32.3% and Skoda grew by 16.9%.

For 2010, the general market outlook in Europe is bleak, as scrappage schemes have ended or will be phased out (as in France). CSM forecasts sales to decline by 7.9% across Europe.

Exchange rates continue to be of concern for exporters from the euro zone. In December 2002, one euro traded for less than one US dollar. Since then, the euro has constantly appreciated against the US dollar, peaking at 1.5990 in July 2008. Economists are expecting the euro to average at 1.46 US dollars in 2010.

The appreciation of the euro versus the US dollar increases the price of goods from the euro zone to export markets such as America, China and Arabia. Even premium manufacturers cannot withstand the weight imposed by currency fluctuation and see the need to offset these by "natural hedging" (i.e., transfer of production to important markets). Audi introduced a second full-scale production facility for its Q5 SUV in Changchun, China in 4Q 2009. Production of the next-generation BMW X3 will be transferred to the Spartanburg, South Carolina plant with start of production in September 2010. Sourcing of the next-generation Mercedes C-Class will be added at the Tuscaloosa, Alabama plant in 2014.

Cost considerations also play their part in such moves, as manufacturers of premium vehicles have to cope with considerable wage costs, especially at lead plants. As manufacturers seek efficiencies in more price-sensitive segments, Mercedes will consolidate



CSM WORLDWIDE + IHS GLOBAL INSIGHT AUTOMOTIVE GROUP = IHS AUTOMOTIVE

European output of the C-Class replacement at its Bremen plant from 2014. Production costs there are about 10.0% lower than at its lead plant in Sindelfingen.

In the short term, production of premium manufacturers will recover earlier from the crisis than total European output. While CSM forecasts a moderate contraction of total European production in 2010, car output of the analyzed premium brands is expected to grow by 6%. With sales in important export markets such as the US and China recovering and continuing to expand, sluggish European demand can be offset.

Despite the need to offset currency fluctuations, save costs and produce vehicles in important growth markets, CSM has made an interesting observation about premium manufacturers' production. In terms of added volume by 2016, production in Europe will grow more than all other production regions altogether. Versus 2009, European production locations of premium manufacturers are forecast to add 1.54 million units until 2016, while other production regions are expected to add 0.56 million vehicles.

Note: Some scaling used to show differences.

Audi is expected to add 0.56 million cars in Europe, BMW is forecast to expand by 0.36 million units and Mercedes is forecast to grow by 0.43 million units. Regardless of the sales market, about 80% of production of premium brands is still sourced from Europe. With the CSM Advanced Light Vehicle Sales Forecast, clients have an efficient way of keeping track of sales sourcing patterns and their various sales destinations.

Scrapage schemes have forcefully changed the segmental landscape in Europe for roughly one year. While there is a general tendency to fulfill mobility needs with smaller, more fuel-efficient vehicles, this gives leeway for additional models from premium manufacturers also in segments below their current offerings. For example, Audi will introduce the all-new A1 in mid-2010, based on the same architecture as the Volkswagen Polo. This is forecast to add about 130,000 cars annually once all bodystyle derivatives are launched. A middle-engine roadster, jointly developed with Volkswagen, will also expand offerings from Porsche and Audi with their derivatives, adding about 20,000 units annually. A small Range from Land Rover, dubbed the Range Rover LRX, is expected for late 2010 and accounts for about 50,000 units annually. For both Land Rover and Audi, a large portion of the volume growth outlined previously is attributable to all-new models that are not yet in production. For Mercedes, CSM expects two new nameplates to be added based on the next-generation B-Class (a four-door coupe and a SUV), together accounting for more than 150,000 units annually. BMW is expected to expand its sub-brand C-segment offer, dubbed the Megacity, with a forecast annual volume of 40,000 units.

Audi's transition to a premium manufacturer has taken many years. It will be interesting to monitor how the brand competes with its European premium competitors while striving for its goal to become the leading premium manufacturer by 2015. A little "Vorsprung durch Technik" may help.

Björn Hütter may be reached via e-mail at bjorn.huetter@ihs.com.

