4 Focus on emerging truck markets

All emerging markets are distinct

Although commercial vehicle markets in Russia, India and China are all growing, there are key differences. All three emerging markets have distinct characteristics which make them unique. Just to mention a few, China distinguishes itself through its sharply fragmented company environment; the Indian market, on the other hand, is largely consolidated among three very dominant local manufacturers. The Russian market, meanwhile, is fairly Europeanized due to its relative proximity to the European market.

Accessing any one of these markets will therefore require a highly-specific and market-tailored strategy. In the course of this chapter all markets will be analyzed according to the following key market elements:

- market structure & development
- competitive environment
- market characteristics
- globalization strategies.

Characteristics of different market elements in the emerging truck markets

		EMERGING MARKETS		
		CHINA	INDIA	RUSSIA
MARKET STRUCTURE & DEVELOPMENT	Role of domestic manufacturers in the commercial vehicle market	very high/strong	high/strong	low/weak
	Impact of market cyclicality on domestic truck market sales and production	very low/weak	low/weak	very high/strong
COMPETITIVE ENVIRONMENT	Degree of market consolidation	very low/weak	high/strong	low/weak
	Competitive abilities of domestic vs. foreign truck manufacturers	high/strong	high/strong	very low/weak
MARKET CHARACTERISTICS	Customer demand for more sophisticated commercial vehicles	low/weak	low/weak	high/strong
	Influence of Total Cost of Ownership on truck customer's purchase decision	low/weak	very low/weak	very low/weak
	Demand for added-value services (e.g. car maintenance, repair services)	low/weak	very low/weak	low/weak
	Importance of fleet management solutions and telematics services	low/weak	very low/weak	very low/weak
GLOBALIZATION STRATEGIES	Interest of global OEMs entering the domestic market	very high/strong	very high/strong	very high/strong
	Competitive abilities of emerging OEMs to succeed on the global truck market	low/weak	low/weak	no impact

Key: no impact; very low/weak; low/weak; high/strong; very high/strong

Source: KPMG International

4.1 China

4.1.1 Market structure & development

China's commercial vehicle market achieves consistently high growth with less sophisticated trucks

China – the largest commercial vehicle market in the world since 2009 – is still characterized by trucks with a relatively low level of technical maturity. It is dominated by a few large state-owned and some very small local manufacturers, accounting for around 98 percent of both domestic sales and production, with very slow consolidation. Until today the opportunities for global foreign truck manufacturers were mostly in a few highly-specialized niches, because competing with domestic manufacturers in the low-cost segment remains challenging. Technical standards and prices are still relatively low, since low transport costs are one of the most important drivers of the Chinese economy.

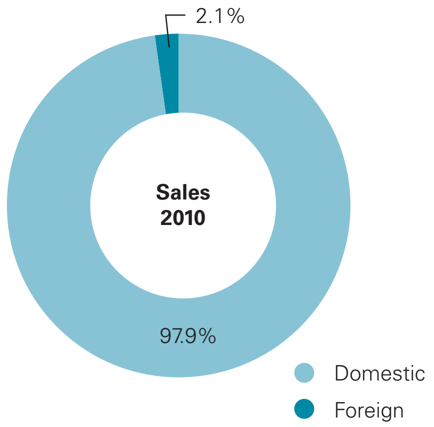
The Chinese market has experienced consistently high growth in recent years. The strong growth of the overall economy in the last decade acted as the primary engine. In particular, the market for light commercial vehicles was not negatively affected by the worldwide financial and economic crisis or by the slight decline of GDP in 2008/2009. Instead, it posted an outright increase from around 2.9 million units to around 4.3 million units – almost a 50 percent increase within 12 months. Of course, the government's stimulus package for the truck industry helped maintain growth during these years of crisis. Overall, new registrations of light commercial vehicles have approximately doubled within three years (2007 to 2010). The demand for light and cost-effective commercial vehicles for inner city delivery traffic and public transport should be another catalyst for continued growth in this segment.

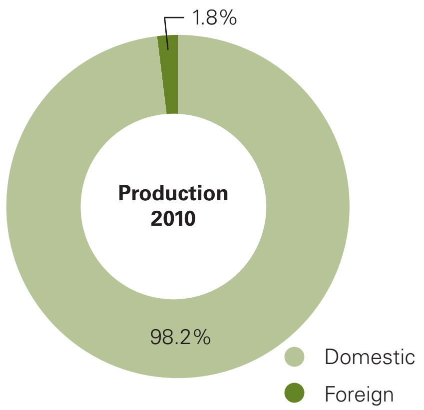
Although there was a slight decline in 2008, Chinese sales of heavy trucks (over 6 tons) suffered only slightly from the global downturn compared to the Triad markets and other emerging markets such as India and Russia. Even then, the market recovered briskly. In 2010 commercial vehicles sales passed the one million mark for the first time, thanks not least to the booming Chinese construction sector.

Since 2006 the domestic truck production has constantly exceeded the domestic sales volume

Interestingly, China's domestic production volumes consistently exceeded commercial vehicle sales between 2006-2010. Forecasts show that this will remain the case for the next few years, too. Furthermore, current export volumes of domestic Chinese manufacturers are negligible. Dongfeng, for instance, exported as few as 2,000 of the 300,000 heavy trucks it produced in 2010. It is clear that any further increase in production capacity could actually lead to overcapacity if current growth patterns cannot be maintained.

Domestic vs. foreign sales and production

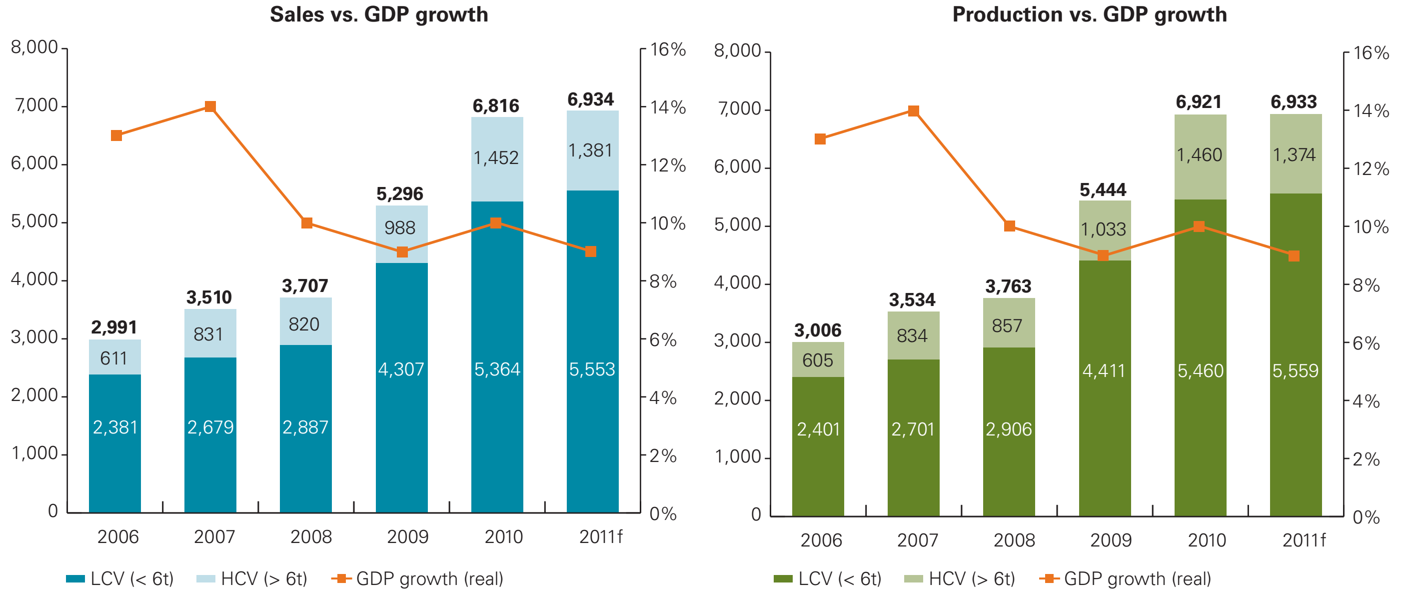




Source: IHS Automotive, KPMG International

Light commercial vehicles dominate the Chinese truck market and are posting steady growth.

Sales and production in the Chinese commercial vehicle market (2006 – 2011) (in thousands)



Source: IHS Automotive, Deutsche Bank Research, KPMG International

4.1.2 Competitive Environment

State-owned manufacturers clearly lead the Chinese commercial vehicle market.

State-owned manufacturers are in intense competition with one another

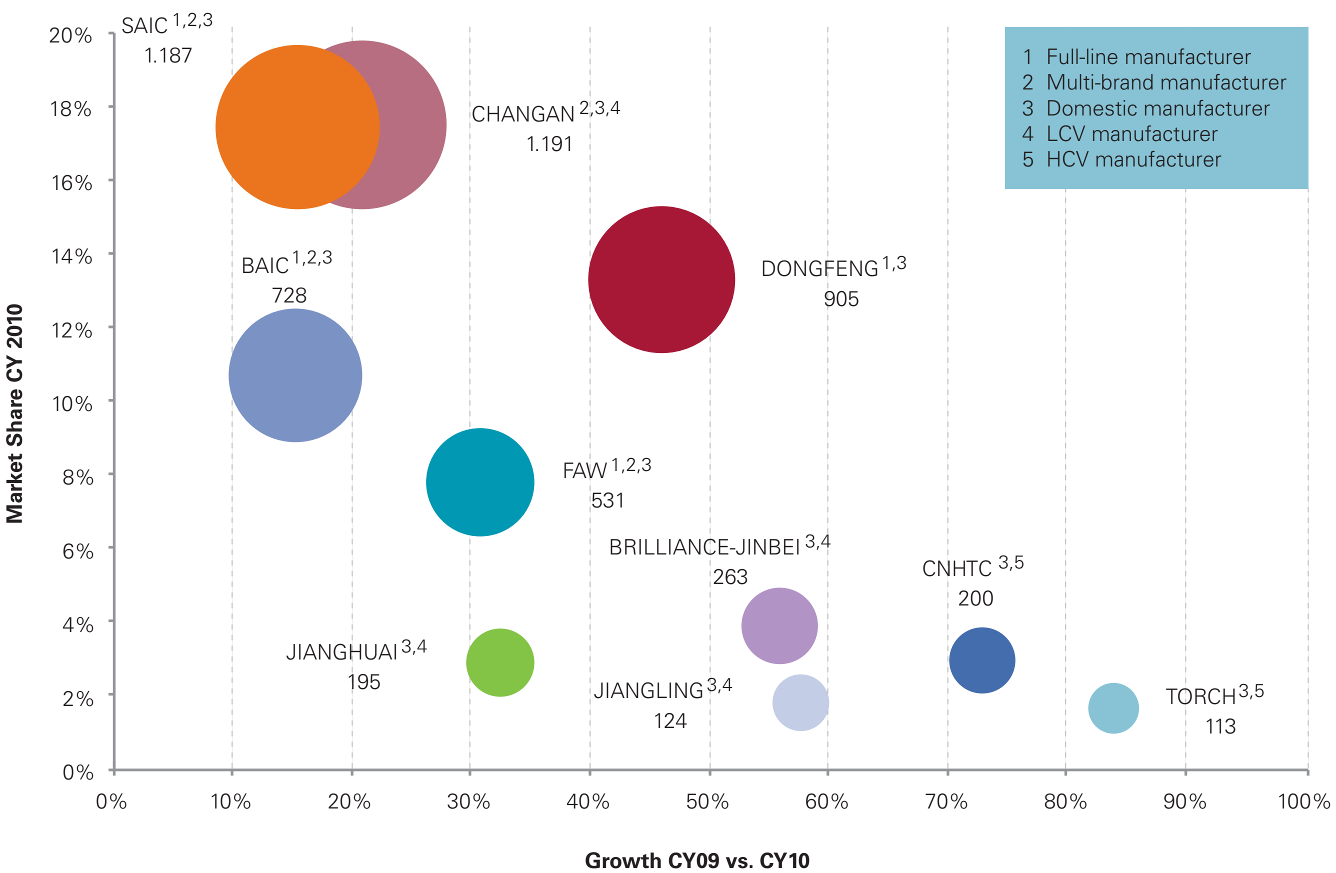
The largest commercial vehicle group in the Chinese market is the state-owned Chang'an Automobile Group. Interestingly, in contrast to its competitors, Chang'an is only active in the market for light commercial vehicles. It is closely followed by the full-line manufacturer Shanghai Automotive Industry Corporation (SAIC). Both sold more than one million commercial vehicles in 2010. The Dongfeng Motor Corporation, Beijing Automotive Industry Corporation (BAIC) and First Automobile Works (FAW) sold over half a million vehicles in the same year.

Brilliance China Automotive, Anhui Jianghuai and Jiangling Motors are also among the top 10, but only represented in the market for light commercial vehicles. On the other hand, the China National Heavy Duty Truck Company (CNHTC) and the Torch Automotive Group, whose heavy trucks are distributed under the name Shaanxi Automotive, specialize in heavy trucks.

The growth rates of most of these manufacturers (15 to 60 percent in the last year alone) are extremely high compared to worldwide growth levels. In particular, CNHTC and Torch saw sales increase by more than 70 percent in 2010. Even the larger commercial vehicle groups were able to impressively increase their sales between 2009 to 2010, with growth rates generally exceeding 10 percent.

In terms of branding strategies, the leading Chinese full-line manufacturers SAIC, BAIC and FAW increasingly rely on separate brands for each segment they serve. Accordingly, the Beijing Automotive Industry Corporation is present with Auman and EuroV in the heavy segment, while it serves the light segment with its Foton brand. In contrast, companies solely active in one commercial vehicle segment such as Torch, CNHTC (both HCV) or Jianghuai and Jiangling (both LCV) do not have multiple brands in their portfolios.

Market share and market growth of the 10 largest commercial vehicle groups*



* Light commercial vehicles up to six tons + heavy commercial vehicles over six tons
Source: IHS Automotive, KPMG International

Bubble size = sales volume CY10 (in thousands)
CY = calendar year

The market for light commercial vehicles is particularly strong

The market for commercial vehicles weighing less than six tons is dominated by four brands with a combined market share of close to 60 percent. With its Wuling brand, SGMW (Shanghai General Motors Wuling), a joint enterprise of General Motors and the SAIC Group, is the undisputed market leader, with a market share of over 20 percent. This is largely attributable to its minibuses and mini-pickups. Its largest competitor, Chang'an, holds a 17 percent market share. A further 20 percent of the market is split among a number of other manufacturers with relatively small market shares.

Top 10: New light commercial vehicle sales by brands (in thousands)

Brand (Group)	2006	2007	2008	2009	2010
Wuling (SGMW/SAIC/GM)	420	520	610	1,005	1,150
Chang'an	344	363	383	705	899
Dongfeng	200	245	301	427	605
Foton (BAIC)	302	335	343	500	562
Jinbei (Brilliance-Jinbei)	113	138	146	169	263
Jianghuai	111	125	117	148	195
Hafei (Chang'an)	166	164	145	211	193
FAW	132	126	142	195	190
Jiangling	59	64	66	79	124
Yuejin (Nanjing Automotive)	51	45	41	55	107

YoY increase   YoY decrease

Source: IHS Automotive

Dongfeng and FAW are competing head-to-head for market dominance in heavy commercial vehicles

In heavy commercial vehicles, the two state-owned manufacturers, Dongfeng Motor (market share of around 21 percent) and FAW (market share around 19 percent), are the market leaders.

Growth in this sector has been strong, particularly in 2010. Two other competing makes, CNHTC and Auman, have made particular progress in recent years. CNHTC nearly quadrupled its unit sales between 2006 and 2010. Similarly, Auman, a medium and heavy truck brand belonging to Beiqi Foton Motor (which in turn belongs to BAIC), increased its unit sales by approximately threefold over the same period.

Top 10: New heavy commercial vehicle sales by brands (in thousands)

Brand (Group)	2006	2007	2008	2009	2010
Dongfeng	145	180	175	193	299
FAW	130	164	157	181	273
CNHTC	54	85	96	116	200
Shaanxi Automotive (Torch)	43	68	55	62	113
Auman (Foton/BAIC)	36	63	60	85	104
Anhui Jianghuai	27	33	29	48	62
North Benz	10	15	23	26	46
Sichuan Nanjun	0	17	20	26	35
Chongqing Hongyan (SAIC)	18	24	22	20	33
King Long	10	13	15	22	31

YoY increase   YoY decrease

Source: IHS Automotive

BEIQI FOTON

Interview with Shen Yang,
Senior Director of Strategy and Development at Beiqi Foton Motor Co., Ltd. (China)

Chinese brands will be successful

The Chinese auto industry will reach maturity over the coming decades, according to Shen Yang, senior director of strategy and development at Beiqi Foton Motor Company. Moreover, he believes the affordability of locally-produced trucks will keep the domestic market healthy. "In the commercial sector, buyers are interested in value for money, and generally Chinese brands cost one-third to one-half as much as foreign makes," says Shen.

Foreign truck manufacturers, he notes, are hindered with larger R&D and manufacturing expenses, as well as rigid cost structures. "Because of these higher costs, I don't think foreign OEMs will be able to take much market share from domestic manufacturers," says Shen.

The commercial market is where Shen sees Foton continuing to prosper. "We have a very powerful brand in commercial vehicles," he says. "But that doesn't necessarily translate to passenger vehicles, where we lack a recognized image."

Shen remains skeptical about the prospects of further government aid to strengthen the position of domestic manufacturers. Market demand will continue to drive the industry – and value-for-money will continue to drive market demand.

Chinese trucks are designed to cope with overload capability, allowing businesses to transport more goods per journey than regulations allow – which has a positive economic impact for the customer. It's this understanding of local needs that give domestic OEMs an advantage over foreign developers.

Emissions levels will become increasingly relevant because of their link to vehicle efficiency and fuel economy, but Shen sees no prospects for hybrid power train systems in the truck sector. Safety features will also continue to occupy a low place on the priority list, mirroring their minimal influence in the passenger vehicle sector.

Shen is optimistic about Foton's ability to penetrate foreign markets. Last year, the company unveiled its 5+3+1 strategy: localize manufacturing in '5' fast-growing countries - India, Brazil, Mexico, Russia, and Thailand; launch business in '3' developed regions - Europe, North America, and Japan; with the '1' symbolizing a plan to crack the domestic passenger vehicle market by the middle of the decade.

In terms of financial and technical capability, Shen believes Foton is more than ready to embark on these ambitious plans. Foton entered Mexico years ago by partnering with a local distributor. This contrasts with similar failed attempts by rival manufacturers. "Certain manufacturers are short-sighted," says Shen. "Entering a new market successfully is a long term strategy. You must make calculations not for one year, but for five or ten years. Companies can only do this if they are able to combine an entrepreneurial spirit with serious commitment."

4.1.3 Market characteristics

CUSTOMER REQUIREMENTS

Main challenge for foreign manufacturers is the Chinese customer's low-cost focus

The Chinese market is characterized by less sophisticated vehicle technology and – compared to Western standards – considerably lower customer expectations. Chinese customer demands for commercial vehicles focus mainly on functionality and purchase costs. Quality and safety standards are of little importance compared to Western Europe, for instance. Nevertheless, a slow shift towards appreciating total cost of ownership is looming, since not even China can avoid the global rise in fuel costs and wages.

For cost and benefit reasons, the demand for alternative fuel technologies in China is still relatively low. Only larger metropolitan areas such as Beijing or Shanghai provide tax subsidies for purchasing environmentally-friendly commercial vehicles.

One specific customer demand that has to be considered, however, is the tendency of Chinese commercial vehicle operators to drastically overload their trucks. Foreign commercial vehicle manufacturers must therefore take into account that their vehicles will have to bear a higher payload than originally intended.

TOTAL COST OF OWNERSHIP

The initial purchase price is still prioritized over the lifecycle costs of a truck

Until now, investment decisions of Chinese truck buyers have been only marginally influenced by the follow-up costs of truck purchases. For a long time, operating costs such as fuel, insurance, maintenance and wages had almost no impact on the economic decisions of Chinese truck owners.

> The government generally follows a cautious approach to keep fuel prices low level in favor of domestic consumers, but it will have to raise fuel prices to contain inflation.

However, experts predict this will change in the future, as additional costs for trucks increase due to the enormous growth of the Chinese industry itself. For instance, recent demands for wage hikes are unlikely to be a short term phenomenon, and wages are likely to rise more rapidly in the years to come. According to the National Bureau of Statistics of China, the average wage of employed people has already experienced a compound annual growth rate of almost 15 percent in the first decade of this millennium. In metropolitan areas like Beijing or Shanghai, wages are almost twice as high as the national average.

With this and state-set diesel prices at a record high due to rising global oil prices, truck operators' profits are consistently shrinking. Considering the total lifetime costs of a truck will therefore become more important for Chinese truck buyers.

ADDED-VALUE SERVICES

Chinese truck customers will increasingly demand an extensive service network as the road infrastructure is rapidly developing

In terms of traffic in tons per kilometer, road freight transport has seen enormous growth over the last 10 years, mostly because the Chinese government has been strongly committed to road construction. Between 2000 and 2010 the length of national highways grew by an impressive 2.5 million kilometers. The current four million kilometers is therefore certain to expand further. By 2020, the expressways – primarily for inner- and inter-city traffic – will also grow from 55,000 km to 85,000 km. Additionally, the Chinese government recently eliminated tolls for secondary highways. These and similar developments will help to achieve continuously strong growth in the road transport of goods.

In contrast, the share of freight transport by rail declined dramatically over the last decade. In 2000, the transport of goods via train accounted for as much as 70 percent of total freight traffic. By 2010 it had dropped to less than 40 percent. In absolute terms, rail freight still grew by more than one billion tons per km, but it was overshadowed by the phenomenal growth in road freight, which exploded from

Freight traffic in China								
Traffic in million tons km	2000	2004	2005	2006	2007	2008	2009	2010
Transport of Goods by Road	612,940	784,090	869,320	975,425	1,135,469	3,286,819	3,718,882	4,300,543
Total share	30.7%	28.8%	29.5%	30.7%	32.2%	56.6%	59.5%	60.7%
Transport of Goods by Railway	1,377,050	1,928,880	2,072,600	2,195,441	2,379,700	2,510,628	2,523,917	2,764,413
Total share	69.0%	70.9%	70.3%	69.0%	67.5%	43.2%	40.3%	39.0%
Transport of Goods by Air	5,027	7,180	7,890	9,428	11,639	11,960	12,623	17,660
Total Traffic	**1,995,017**	**2,720,150**	**2,949,810**	**3,180,294**	**3,526,808**	**5,809,407**	**6,255,422**	**7,082,616**

YoY increase YoY decrease

Source: BRICS Joint Statistical Publication 2011, National Bureau of Statistics of China

612 million tons per km to more than four billion in 2010. Although China's 12th Five-Year Plan details an extension of the nationwide railway operational mileage to roughly 120,000 kilometers, a Chinese commercial vehicle market expert believes that rail will most likely only be a serious alternative for medium and heavy commercial vehicles on the densely populated east coast:

"In terms of commercial vehicle segments, the rail network, especially on the east coast, is a viable alternative to medium and heavy trucks. But LCVs predominantly used to serve rural areas with smaller goods will not be affected too much."

George Kapitelli, Vice President, SAIC GM Wuling Automobile Co., Ltd. (SGMW) (China)

In the end, improving roads will ultimately lead to longer freight transport distances. An extensive network of servicing stations for repairs and maintenance will therefore become increasingly important for the success of commercial vehicle manufacturers in China.

An extensive servicing network will be a critical success factor for truck manufacturers in China.

FLEET MANAGEMENT

Fleet management services are largely restricted to metropolitan areas and business hubs such as Beijing and Shanghai

Since the 2008 Olympic Games and the World Expo in 2010, commercial vehicle customers in international business hubs like Beijing and Shanghai have become increasingly interested in fleet management services and GPS-enabled network logistics systems. Rural areas are unlikely to see much growth in this respect, because the critical mass of commercial vehicles needed to operate profitably will not be reached in the foreseeable future.

Over recent years, since the majority of their global clients have investments in China, an increasing number of international players have begun offering fleet management solutions in China. One of the biggest auto-leasing companies in Europe, ALD Automotive, is already operating a Shanghai-based joint venture with China's leading steelmaker, Baosteel Group. The venture is aiming for a fleet of 10,000 vehicles by 2014.[4]

[4] SocGen, Baosteel forms China auto-leasing venture, Reuters, 2009

4.1.4 Globalization strategies

MARKET ENTRY STRATEGIES FOR GLOBAL OEMs

Market entry for global manufacturers is only possible through highly regulated joint ventures

Market entry for foreign commercial vehicle manufacturers is substantially more difficult than in the passenger car sector, where prestigious Western brands can achieve a significant price premium over domestic vehicles. Foreign OEMs are limited to two joint ventures in the passenger and commercial vehicle sector in China, with a maximum of a 50 percent share in a joint venture. The joint venture must involve the establishment of a research and development institution in the country for a minimum of 500 million Yuan. The 50 percent share can be increased if a production site is constructed in China for a minimum of two billion Yuan. However, if the joint venture operates more than one brand and 30 sales offices, the Chinese joint venture partner remains the controlling partner. Interestingly, joint ventures are not required for companies solely focusing on exports. For setting up a purely export-oriented venture on Chinese soil, foreign companies only need obtain a State Council approval.

In the domestic truck market, the Chinese government is not expected to strengthen current barriers to entry, since local manufacturers already dominate the market. Nevertheless, the tariff-based barriers to entry are substantially higher than in India or Russia.

> “The commercial vehicle business in China is clearly dominated by local manufacturers, so it’s not like they need additional support.”
>
> **George Kapitelli,** Vice President, SAIC GM Wuling Automobile Co., Ltd. (SGMW) (China)

The Chinese government is attempting to increase “local content”

Market entrants must comply with the rigorous requirements of the Chinese regulatory environment.

A company must comply with rigid local content provisions to operate in China. A maximum of 60 percent of the key parts of a vehicle produced in China can be imported; the remainder must be procured from local suppliers. If the foreign portion exceeds 60 percent, a customs duty is imposed at the rate for imported parts, substantially higher than the rate for motor vehicle parts.

After joining the WTO, the Chinese government reduced import customs duties on vehicles from 80 percent in 2001 to 25 percent by 2006 (motor vehicle parts: 10 percent), and all import quotas were abolished in 2005. In addition, every company registered as a foreign vehicle producer automatically receives an import license.

Western commercial vehicle manufacturers are investing heavily in joint ventures

Volvo, Daimler, MAN and GM maintain commercial vehicle joint ventures in China.

A large number of commercial vehicle manufacturers in China have formed joint ventures. In 2000, for example, Volvo formed a joint venture with China National Heavy Duty Truck Corporation (CNHTC), producing trucks under the name of Jinan Huawo Truck Corporation. Daimler agreed to enter into a joint venture with BAIC’s subsidiary Beiqi Foton in 2008.

In 2009, German-based MAN invested in the Chinese state-owned enterprise Sinotruk. MAN holds an equity interest of 25 percent plus one share in the CNHTC Group affiliate, a manufacturer of heavy trucks in China. The two partners will jointly develop a new truck series based on MAN technology. Sinotruk will distribute the trucks in China, while MAN will receive the exclusive distribution rights for export.

GM has operated in the commercial vehicle sector since 2002. The joint venture with Chinese partners Shanghai Automotive Industry Corporation (SAIC) and Liuzhou Wuling Motors is called SGMW (SAIC General Motors Wuling). Whereas Daimler, MAN and Volvo are focused on medium to heavy commercial vehicles, SGMW has focused with great success on light commercial vehicles, such as small vans and buses. With the exception of SGMW, which is a market leader in light commercial vehicles, none of the foreign OEM's joint enterprises have been able to develop a significant market position to date. In fact, few co-operation efforts will lead to significant output, as long as Chinese customers remain unwilling to pay a substantial price premium for a Chinese truck equipped with a Western engine.

It is not only Western manufacturers who are showing an increased interest in producing commercial vehicles in China. The South Korean Hyundai Motor Group recently announced its plan to create a 50:50 commercial vehicle joint venture with Sichuan Nanjun, a Chinese company which produces mainly trucks, buses and auto parts. The joint venture, Sichuan Hyundai Motor Company, is aiming for an annual production capacity of 160,000 commercial vehicles (150,000 trucks and 10,000 buses) by 2013.

Foreign manufacturers only fill the market niche for highly-specialized trucks – but competing in the low-cost segment will ultimately determine future success

In the heavy truck segment, Chinese manufacturers are unable to fully meet customer demands. Therefore, foreign OEMs identify considerable potential in specialized areas, such as the transport of hazardous goods or construction, where reliability and stability are crucial. Conversely, in the low-cost segment, it is extremely difficult for Western brands to compete on price, even with established non-Chinese manufacturers such as Hino (a Toyota brand) from Japan. These manufacturers already have a well-developed market position and their products serve a premium segment at substantially lower prices. A premium segment at Western levels will probably develop in major Chinese metropolitan centers with large professional fleet operators, and in the light commercial vehicle segment.

Western manufacturers must cut costs and offer substantially cheaper trucks to succeed in the Chinese low-cost segment.

"Buyers are interested in value for money, and generally Chinese brands cost one-third to one-half as much as foreign makes. A Mercedes-Benz Actros, for example, can be three-times as expensive as a Foton Auman truck. From a total cost of ownership point of view, there is no reason for ordinary Chinese customers to buy a Western truck."

Shen Yang, Senior Director of Strategy and Development, Beiqi Foton Motor Co., Ltd. (China)

GLOBALIZATION EFFORTS BY EMERGING OEMs

Chinese commercial vehicle manufacturers plan to expand their export activities

Chinese manufacturers have shown relatively little interest in exports, largely because domestic demand has exceeded production for many years. Recently, however, several companies have set their sights on world markets. Until 2015 it is predicted that one in every five trucks manufactured in China is made for export. Based on today's production volumes, this would mean an overwhelming export volume of more than 1 million units per year by then.

Earlier attempts by Chinese manufacturers to act alone in foreign markets have met with little success, even within similarly developing markets. Preferred export nations currently include Brazil, India, Mexico and Russia, as well as Southeast Asia and several countries in Africa. Exported unit figures remain extremely low. For example, Beiqi Foton sold only around 10,000 units in South America (Columbia, Peru), North Africa (Egypt), the Middle East and neighboring Asian countries in 2010. Establishing service networks and adapting to differing national needs have so far proved insurmountable hurdles. In addition to partnerships with established players, Chinese OEMs must rely on extremely competitive prices, because they cannot yet compete in terms of modern diesel technology, safety and quality standards.

Preferred export regions include Brazil, Mexico, India, Russia, Southeast Asia and African countries.

> "Firstly, we will try to compete on price in foreign markets. In a second step, we also intend to improve our service quality. Compared to quality or safety improvements, for instance, better service can be implemented quite quickly at relatively low cost – but with very high value for customers."

Shen Yang, Senior Director of Strategy and Development, Beiqi Foton Motor Co., Ltd. (China)

Chinese truck manufacturer First Automobile Works' (FAW) attempt to crack the Mexican market is a prominent example of a less successful globalization attempt. In 2007, FAW signed a joint venture with Mexican Grupo Salinas, initially to import Chinese trucks. Later, the construction of the joint venture's own plant in Southern Mexico was planned, which would also have served Latin America. Mexico's membership of NAFTA would also have eased entry into the US market.

However, the joint venture faltered because the demands on foreign OEMs (investment in a factory of at least $100m, with an output of at least 50,000 vehicles annually) were unrealistic given an expected sales volume of only 5,000 units.

Conversely, FAW's Chinese competitor, Foton, launched an investment in Mexico in mid-2010 and announced the construction of a factory with a volume of at least 50,000 units. The primary plan is to produce light commercial vehicles for the local, US and South American market. For Foton, this project triggers a broad globalization program including planned plants in Brazil, India, Thailand and Russia – with the goal of becoming the world's largest commercial vehicle manufacturer by 2020. As a next step, Foton recently signed a memorandum of understanding to build an assembly plant in Maharashtra, India. The company plans to build trucks, buses, pickups, SUVs and minivans.[5]

> "It could take one or two cycles for them to compete fully, but we should not underestimate them [Chinese OEMs] in any way."

Dee Kapur, President of the Truck Group, Navistar International Corporation (USA)

[5] Chinese commercial vehicle maker plans India plant, Automotive News China, 2011

SGMW

Interview with George Kapitelli,
Vice President at SAIC GM Wuling Automobile Co., Ltd. (SGMW) (China)

Successful strategies for entering foreign markets

The Chinese truck industry is at a turning point, driven by growing domestic affluence, the rise of environmental issues, and foreign partnerships. That's the view of SGMW vice president George Kapitelli.

As the country's economy continues to grow, more Chinese truck manufacturers are exploring foreign markets. Recognizing the potential of these expanding horizons, the Chinese government is supporting consolidation, encouraging firms to develop economies of scale, generate synergies and grow their capabilities.

Commenting on his company's partnership with General Motors, Kapitelli says the benefits of the joint venture (JV) have been significant.

"When the JV was formed in 2002, SGMW was a small Mini Commercial Vehicle (MCV) manufacturer and predominately a regional player selling close to 150,000 units with a market share of 18.8 percent. If you look at 2010, the MCV share was at 40 percent and sales exceeded 1.2 million vehicles. That's significant growth."

The JV structure added value in terms of technology, management strategy, staff development and operational processes. Kapitelli says tactical JVs can also ease access into foreign markets for domestic Chinese manufacturers.

Under GM's widely-recognized Chevrolet banner, SGMW has already begun distributing its vehicles to new markets such as South America, North Africa, and the Middle East. Kapitelli believes Chinese manufacturers will become significant global players within 10 to 15 years, emulating their Korean and Japanese counterparts in the 1970s and 1980s.

Attractiveness of the passenger car market for a light commercial vehicle producer

The low cost of locally-manufactured commercial vehicles means the domestic industry can still hold its own against foreign imports, accounting for more than 90 percent of the market. In contrast, private passenger vehicles in China are being increasingly squeezed by international rivals, with local manufacturers only claiming one-third of sales.

On the environmental side, Kapitelli says the government is dedicated to raising the emissions standards of Chinese vehicles to match Western levels. At the same time, Chinese consumers are becoming more environmentally aware, and now have greater expectations of auto manufacturers.

The demand for greener vehicles was further boosted in 2010 with the introduction of a new grant for buyers of fuel-efficient vehicles, which can reduce the net purchase price by 5–10 percent for a low-end passenger car.

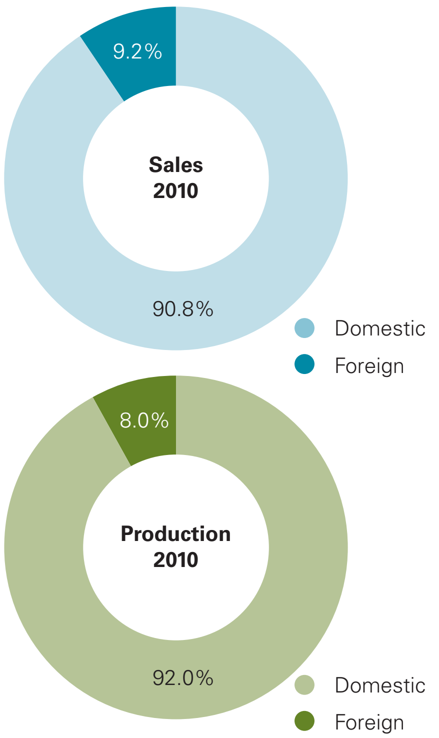
The passenger vehicle market is one SGMW plans to target aggressively. Its forthcoming Baojun 630 sedan is set to complement the company's current Lechi mini-car, and additional releases are expected across the passenger car range.

Kapitelli believes SGMW's experience in the commercial market has set a solid foundation to exploit the passenger sector. He expects shared knowledge, in terms of production skills and sales strategies will help stimulate both sides of the business.

A trend towards diversification of this kind is already emerging. Chery, for example, hit the headlines when it launched a series of minivans and pickups under the Karry brand.

4.2 India

Domestic vs. foreign sales and production



Source: IHS Automotive, KPMG International

Five Indian manufacturers share 90 percent of the Indian truck market.

4.2.1 Market structure & development

The Indian truck market, dominated by local manufacturers, is still developing its product offerings from a technology standpoint

As in China, low-cost trucks dominate the Indian market. However, India has been subject to slightly stronger fluctuations in terms of commercial vehicle development. One peculiarity of the Indian market structure is the high percentage of light trucks, which visibly dominate the streetscapes of major Indian cities.

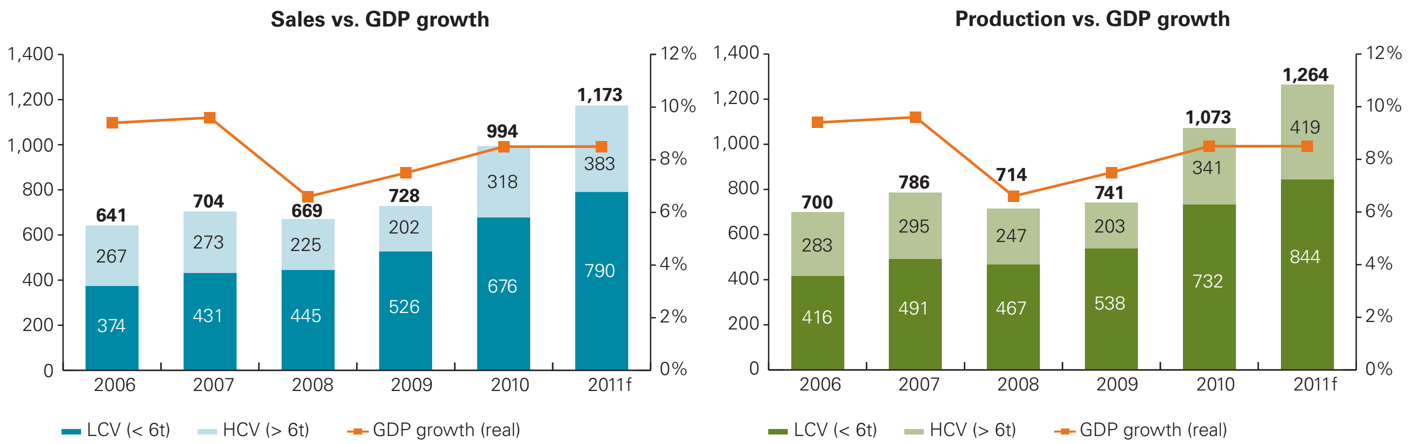
The Indian market is already largely consolidated, with a 90 percent market share split between only a few local manufacturers. This results in an extremely small selection of potential cooperation partners for Western manufacturers. Nevertheless, foreign manufacturers produce just under 10 percent of the commercial vehicles on Indian soil.

As in China, the Indian segment for heavy trucks was more heavily affected by the financial crisis than light commercial vehicles, with declines posted in 2008 and 2009 on both the sales and production side. Since this decline, during which GDP growth fell to around six percent, India's economy has rallied, with economic growth of about nine percent. Recovery in the construction and agricultural sectors has further increased the demand for heavy trucks. Since the service sector also posted a particularly strong growth, due to an increasingly organized retail sector and higher spending, the demand for light commercial vehicles rose to an all-time high in 2010.

From 2007 to 2010, the market in India for medium and heavy trucks increased by more than 15 percent, with light commercial vehicles up 57 percent. Bus demand has also soared as the most popular means of transportation in large inner cities, as opposed to the train and subway connections for China's metropolitan commuters.

Looking at recent sales and production volumes, India is as prone to overcapacity as China. In fact, India's commercial vehicle production exceeded domestic sales between 2006–2010 and is expected to continue to do so between 2011–2012.

Sales and production in the Indian commercial vehicle market (2006 – 2011) (in thousands)



Source: IHS Automotive, Deutsche Bank Research, KPMG International

4.2.2 Competitive environment

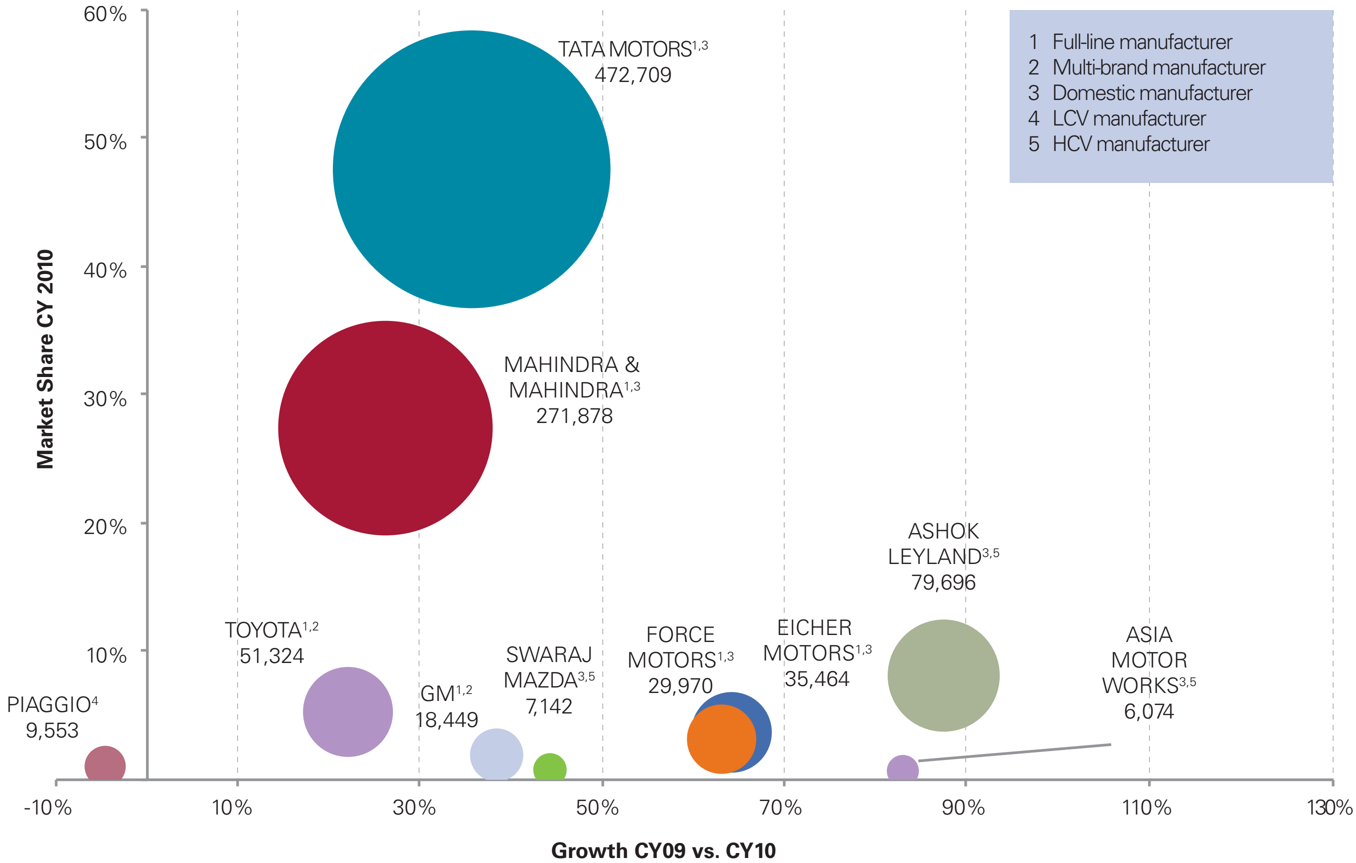
Tata Motors tops the market for both light and heavy commercial vehicles

With a market share of nearly 50 percent, Tata Motors underscored its top position in 2010 as the largest provider and market leader across all commercial vehicle segments. Tata sold over 12.000 units more in the light truck segment than the Mahindra & Mahindra Group and more than three times as many trucks over 6 tons as its closest heavy duty segment competitor, Ashok Leyland.

Tata gained renown in Europe after its acquisition of Jaguar and Land Rover in 2008, as well as the production of the ultra-low-cost Tata Nano car. Apart from Tata Motors and Mahindra, the substantially smaller manufacturer groups Eicher Motors (market share: ~4 percent) and Force Motors (market share: ~3 percent) also offer both light and heavy commercial vehicles domestically.

Tata Motors is trailed by some distance by Mahindra in the LCV segment and Ashok Leyland in the HCV segment.

Market share and market growth of the 10 largest commercial vehicle groups*



*Light commercial vehicles up to six tons + heavy commercial vehicles over six tons
Source: IHS Automotive, KPMG International

Bubble size = sales volume CY10
CY = calender year

Only three foreign manufacturers (Toyota, GM and Piaggio) are in the top 10 in India.

Heavy duty specialist Ashok Leyland will also be able to cover the light commercial segment by the end of this year. The Chennai-based OEM agreed to build its first light commercial vehicle, the Ashok Leyland DOST, in a 50:50 joint venture with the Japanese Nissan Motor Company. The start of production in Ashok Leyland's Hosur manufacturing plant is planned for the second quarter of FY 2011-2012.[6]

Although the Indian market is largely locally dominated, unlike China there are at least a few foreign manufacturers, such as Toyota, GM and Piaggio, which have been able to claim a place among the country's ten largest commercial vehicle manufacturers.[7] Since the Indian market opened up in the early 1990s, the most successful foreign manufacturer has been Toyota. The Japanese global market leader has already achieved third place in the market for light commercial vehicles (including MPVs); however, in the market for heavy trucks, Toyota is only represented in extremely small unit quantities with its Hino brand.

Growth rates are high among almost all manufacturers from 2009 to 2010, with some well in excess of 20 percent. With a percentage growth of nearly 90 percent, Ashok Leyland, specializing in heavy-load vehicles, made the largest jump. Only the European Piaggio Group, a manufacturer of predominantly three-wheeled light commercial vehicles, faced a decline, falling five percent after a relatively successful market entry in 2007. Despite the continuing low-cost focus, this can be blamed on a slight sophistication of the commercial vehicle market in India – which should continue over the next few years.

Few commercial vehicle manufacturers in India follow multi-brand strategies

Because of the low-level of development within the Indian market, local truck manufacturers avoid using different brand names. Compared to China, where several leading manufacturers have already introduced multiple brands, even full-line manufacturers Tata, Eicher and Force Motors, despite their activities in both market segments, choose not to differentiate their products in terms of brand strategy. Only Toyota is represented in the heavy truck segment with its own global brand, Hino. With the introduction of its own Indian brand, BharatBenz, Daimler is treading a new path in this market and plans to significantly increase its market share with its localized brand.

Top 10: New light commercial vehicle sales by brands

Brand (Group)	2006	2007	2008	2009	2010
Tata Motors	164,024	181,567	205,497	220,243	284,049
Mahindra & Mahindra	121,179	151,078	141,969	215,414	271,631
Toyota	40,184	46,527	44,069	42,003	51,304
Force Motors	11,058	10,950	15,118	14,100	23,949
Chevrolet (GM)	21,297	21,866	15,617	13,321	18,449
Piaggio	-	2,575	9,599	10,008	9,553
Eicher Motors	6,860	6,219	4,032	4,696	7,243
Maruti (Suzuki)	3,443	3,037	6,102	4,867	5,697
Premier	-	-	-	-	3,093
Sonalika	4,425	7,195	2,888	1,398	707

YoY increase YoY decrease

Source: IHS Automotive

6 Ashok Leyland-Nissan JV unveil first LCV model, BharatAutos.com, 2011

7 **Please note:** Indian LCV sales figures in this report also include Medium Passenger Vehicles (MPVs), General Motors and Toyota largely sell MPVs in India, which are primarily passenger vehicles, but can also be used for commercial purposes and are therefore included

Top10: New heavy commercial vehicle sales by brands

Brand (Group)	2006	2007	2008	2009	2010
Tata Motors	164,873	165,892	134,158	128,101	188,660
Ashok Leyland	72,874	72,924	61,512	42,529	79,696
Eicher Motors	18,036	21,870	16,082	16,903	28,221
Swaraj Mazda	10,315	10,951	8,189	4,954	7,142
Asia Motor Works	-	-	1,959	3,319	6,074
Force Motors	-	-	-	4,268	6,021
Volvo Trucks	858	1,031	1,270	1,444	1,663
Mahindra & Mahindra	-	-	-	-	247
Mercedes-Benz (Daimler)	-	-	205	230	165
Scania (VW)	-	-	135	112	165

YoY increase YoY decrease

Source: IHS Automotive

The Indian market will continue to show strong growth in the coming years

Two factors assure rising demand for commercial vehicles and, in particular, for heavy trucks in India. The construction sector will continue to experience dynamic growth, and the road network will be substantially improved. Already, the Indian government has introduced a state program for upgrading and building roads and strengthening harbor connections. National highways, which comprise only about 2 percent of the road network but carry 40 percent of the traffic, will be particularly important. By connecting more rural areas to the road network, the need for commercial vehicles outside large metropolitan areas will rise.

A booming construction sector and large-scale infrastructure programs promise great growth potential.

4.2.3 Market characteristics

Stricter emission standards will lead to a slight increase in technological sophistication

CUSTOMER REQUIREMENTS

Just like in China and Russia, technological demands in India will slowly rise to meet a tightening of environmental legislation. However, in contrast to its emerging markets peers India's plans to restrict emissions are not as advanced, while China and Russia plan to implement nationwide Euro V equivalent norms until 2012 and 2014 respectively. Despite the introduction of Euro IV equivalent measures in the National Capital Region of Delhi and other 11 metropolitan areas, India has not announced any further nationwide measures above Bharat Stage III (Euro III) until today (see p. 20). To keep up with technically more experienced foreign manufacturers, local manufacturers will increasingly have to offer vehicles compliant with Euro IV-equivalent emissions limits - at least in the National Capital Region and other metropolitan areas like Chennai, Mumbai and Kolkata. This slightly increasing regulatory stringency will slowly but steady force the technological development of Indian manufacturers.

> "In 2010, we saw many cities moving from Euro III to Euro IV and the rest of the country going from Euro II to Euro III. Emissions standards are an area where we clearly have to advance and be better prepared."
>
> **Ravi Pisharody,** President (Commercial Vehicle Business Unit), Tata Motors Ltd. (India)

Market leader Tata is already experimenting with a series of hybrid buses in Delhi and Mumbai. Without considerable subsidies from the Indian government, however, such field tests – as in the Western markets – will not initially find wider acceptance.

TOTAL COST OF OWNERSHIP

Although India is clearly a low-cost truck market, some customer segments already think about follow-up costs

Indian customers are gradually coming into contact with technologically more sophisticated products from foreign OEMs. A shift in customer demand towards greater quality, safety and reliability therefore seems likely in certain segments over the coming years. The main drivers for increased sophistication are large fleet operators and state-owned bus companies, which already expect a higher level of reliability and quality at a reasonable lifecycle cost.

Additionally, economic indicators show previously neglected aspects of TCO for Indian customers, such as fuel cost, will gain in importance over the coming years: Fuel price is a highly political issue in India. Fuel reforms enacted in June 2010 linking petrol prices in India to the market were controversially discussed. By freeing up petrol prices, the government hiked the cost of other fuels such as diesel, primarily used for commercial vehicles. For instance, from 2000 to 2010, the price for one liter of diesel in India's capital Delhi soared by almost 170 percent.

ADDED-VALUE SERVICES

Poor road conditions in India make robust, easy-to-fix trucks essential

India's road network density – with 0.79 km of highway per square kilometer of land – is much greater than China's (0.42) or Russia's (0.04).[8] Although most highways are narrow and congested with poor surface quality, roads have always been the dominant mode of transport in India, accounting for around 60% of the total freight transport volume. Just like in China, freight traffic by air is almost negligible.

Freight traffic in India

Traffic in million tons km	2004	2005	2006	2007	2008	2009	2010
Transport of Goods by Road	646,000	658,900	766,200	820,217	873,736	929,689	1,016,151
Total share	61.1%	61.5%	61.3%	60.9%	60.5%	60.1%	60.1%
Transport of Goods by Railway	411,300	411,800	483,400	526,488	570,686	616,962	673,195
Total share	38.9%	38.4%	38.7%	39.1%	39.5%	39.9%	39.8%
Transport of Goods by Air	547	548	580	769	871	860	1,076
Total Traffic	**1,057,847**	**1,071,248**	**1,250,180**	**1,347,474**	**1,445,293**	**1,547,511**	**1,690,422**

YoY increase   YoY decrease

Source: Datamonitor, Freight Transport in India, 2011

[8] BRICS Joint Statistical Publication 2011, National Bureau of Statistics of China

Due to the long-standing history of poor quality roads and low customer expectations, Indian trucks are technically unsophisticated and are mainly operated by owner-drivers who typically take care of their truck's maintenance and repair themselves. Value-added services around truck repair and maintenance are therefore of low priority. However, the increasing awareness of TCO could push reliability and maintenance costs more into focus.

FLEET MANAGEMENT

High share of owner-drivers narrows the potential for fleet management solutions in India

Because of Indian fleet ownership patterns, the truck market has been highly fragmented. According to the Indian Foundation of Transport Research and Training (IFTRT), 80 percent of truck operators are small, owning less than 10 trucks. Among these small operators, a large number of owner-drivers transport goods with a single truck. Unusually, the Indian transport industry is mostly organized by transport middlemen or goods booking agents. Those companies are largely non-fleet owning in nature, and hire truck capacity from the smaller truck operators or owner-drivers.

Economic fleet management services require a critical mass of operated trucks, so offering these services in India is reasonably challenging. Because of the ownership patterns described above, wide-scale fleet management solutions are unlikely in India. Only 10 percent of Indian truck operators own a fleet greater than 25 trucks, and only 1-2 percent own between 200-1,000 trucks.[9] Furthermore, high operating costs, and a poor communication infrastructure outside metropolitan areas, restricts fleet management opportunities.

Nevertheless, Indian market leader Tata Motors has launched a commercial fleet management system called TRAKit for their range of commercial vehicles. TRAKit is a low-cost solution tailored to Indian truck market conditions and fleet ownership patterns, with which vehicle and fleet operators can stay connected to their vehicles, while they are in transit.

> "The market in India is still quite fragmented, but in the medium and heavy commercial vehicles sector there are more fleets emerging, and these larger customers will become the important ones."
>
> **Ravi Pisharody,** President (Commercial Vehicle Business Unit), Tata Motors Ltd. (India)

[9] Indian Foundation of Transport Research and Training (IFTRT), 2010

4.2.4 Globalization strategies

MARKET ENTRY STRATEGIES FOR GLOBAL OEMs

Constantly declining state regulation is making India increasingly attractive for global manufacturers

With the conversion from a planned to a market economy, India has been gradually reducing protectionist measures since the early 1990s. The automobile industry has completely opened up to foreign investments. Import regulations and customs duties no longer constitute a true barrier for CKD and CBU[10] production.

Simple import regulations, low customs duties and the absence of local content regulations substantially ease market entry for foreign manufacturers.

Daimler is one international commercial vehicle manufacturer making a market entry into India. The company terminated its previous joint venture with Indian manufacturer Hero. Instead, Daimler has formed a subsidiary, Daimler India Commercial Vehicles, and recently announced its own brand for the Indian market – BharatBenz. Volvo Trucks is taking a different path. Under its VE Commercial Vehicles joint venture with Eicher Motors in 2008, Volvo's heavy-class trucks will be offered in India in addition to trucks and buses already provided by Eicher.

The decades of isolation of the Indian market, which led to local manufacturers establishing a well-structured dealer and service network, presents a challenge for foreign manufacturers. New brands must compete with household names such as Tata, Mahindra, Ashok Leyland, Eicher and Force. Manufacturers entering the country must first of all familiarize themselves with the complex rules and state structures.

GLOBALIZATION EFFORTS BY EMERGING OEMs

The globalization activities of Indian manufacturers have been modest to date

The fast-growing local market offers minimal incentive for Indian OEMs to turn their attentions overseas. Their focus is now on developing individual niche products that might generate a certain level of demand in foreign markets. Southeast Asia has been the focus of all export activities to date. In recent years, however, there has been a growing trend of Indian manufacturers attempting to expand further afield. This has been spearheaded by the two market leaders, Tata Motors and Mahindra & Mahindra, who are focusing on markets which have trends in common with India.

With the acquisition of Daewoo, Tata is also attempting to establish itself on the global market.

Nevertheless, Tata Motors is already the fourth-largest heavy duty truck manufacturer in the world today. The company operates in Europe, Southeast Asia, the Middle East, South America and Africa. However, Tata Motors employs differing strategies for each. In the European automobile sector, it operates almost exclusively through its two premium brands, Jaguar and Land Rover, which it acquired in 2008. The focus throughout the rest of the world is on commercial vehicles. Tata Motors already maintains joint ventures on the African continent (Kenya, Senegal and South Africa), and also in Russia and Ukraine. In addition to India and China, the focus in Asia is on South Korea (the commercial vehicle arm of Daewoo was acquired in 2005), Thailand and Bangladesh.

Consequently, the Tata brand has increased its global recognition in recent years via a series of successful business activities. Conversely, globalization attempts by other Indian manufacturers have failed, mainly due to the small product portfolio and lack of financing.

> “It will take quite some time before brands from Asia will reach the technology standards and especially the quality image to have a breakthrough in Western markets.”

Ravi Pisharody, President (Commercial Vehicle Business Unit), Tata Motors Ltd. (India)

[10] CKD – completely knocked down; CBU – completely built up

TATA MOTORS

Interview with Ravi Pisharody,
President (Commercial Vehicle Business Unit) at Tata Motors Ltd. (India)

A promising outlook for the Indian truck market

Ravi Pisharody, president (commercial vehicle business unit) of Tata Motors Ltd, is predicting an exciting year for the truck business globally in 2011, particularly in India.

The industry in India has already witnessed 25 percent growth in 2010, and this trend is expected to continue over the next four to five years, in the region of 15 to 20 percent annually.

Similarly hopeful estimates were being made in 2008, just before the global recession hit. However, the rate of recovery in the Indian truck market has surprised many observers, and the upward trajectory is expected to be maintained.

Pisharody says this is good news for other large developing markets. "Brazil, Latin America and China are following similar patterns, and competition in these markets will be tough," he says. "In contrast, recovery in Europe and North America is slower and might take another two or three years to come back fully."

Tata is positioning itself to capitalize on this growth. It plans to keep its truck range as diverse as possible, using its high profile in the domestic market to further stimulate sales. It has also invested heavily in the passenger vehicle side of its business.

In India, Pisharody expects few government interventions to safeguard domestic manufacturers, such as trade barriers or import regulations. This is despite a constant trickle of foreign OEMs, such as Daimler Trucks, investing in India. "Indian government policies are fairly open," says Pisharody. "We're going to see a lot of global players coming between 2011 and 2013."

He believes Indian manufacturers have had ample warning about this influx of foreign rivals, and in many cases local firms are already developing, manufacturing and marketing products closer to global specifications.

Strong customer links in India, sometimes stretching back generations, will help protect domestic firms – ultimately motivating them to raise their standards further.

"A unique factor in India is the preoccupation with low price," he says. "However, customers are becoming more educated about the total cost of ownership – things like reliability and repair costs. This sort of thinking will shape the future."

In a world still recovering from economic collapse, Pisharody expects this cost-conscious concept will enable more Indian producers to get a foothold in global markets.

Already Tata is expanding overseas, with operations in the Middle East and Africa, among others. Latin America presents another opportunity and Pisharody believes there are significant synergies with the company's current product range.

But the overseas expansion of Indian OEMs is expected to be slow and steady, rather than a stampede. "If you look at Europe, not even American brands sell many vehicles there, so it'll be some time yet before brands from Asia acquire the technology and image to enter those markets strongly," he says.

Insight

Trucks in

As mentioned in previous chapters, Africa plays an interesting role in the expansion strategies of truck OEMs from emerging markets like China and India. Largely because the market environment and customer preferences are similar to their respective home markets, these OEMs are trying to enter the African continent, either to produce vehicles for the market itself, or to establish a hub for further expansion into regions such as Europe.

Market structure & development

After a period of growth, the African truck market faced strong declines in 2008 and 2009, like the rest of the world. For instance, South Africa, the continent's largest truck market, was hit by a decline of over 40 percent between 2007 and 2009. Since 2010, the African truck industry is recovering from the crisis and – besides being extensively covered by mature market OEMs – increasingly becoming a promising testing ground for emerging OEMs from China and India. Besides South Africa, Northern African states such as Egypt, Morocco, Tunisia and Algeria are offering interesting opportunities for OEMs to leverage a low-cost base for production, bolstering their global commercial vehicle sales.

Market characteristics

Political and historical conflicts continue to influence the development of many African countries. Therefore, the African continent is only partially developed. In vast parts of the continent, the economy and the road infrastructure are very rudimentary. Even in South Africa, which can be considered the most developed country, road infrastructure is still scarce.

In Africa, truck manufacturers generally sell their trucks and aftermarket parts to independent local distribution networks or single dealers. However, trucks are essentially custom products, with dealers commonly ordering to end-user specifications. Typical African end-users are small fleet and owner-driver operators; they are relatively price sensitive and always seeking ways to

Africa

cut costs under the continent's tough economic conditions. The resulting price competition within the African truck market places increasing pressure on European and American manufacturers, because Chinese, Indian and Russian manufacturers can sell their trucks at much lower prices.

On the other side African truck customers still have a preference for reliable and long lasting used trucks. Used trucks are of special importance because small and medium sized companies traditionally replace their old truck fleets with secondhand vehicles. This offers greater potential for Western OEMs, which enjoy a better reputation among African customers compared to their emerging markets' competitors. Reliable used trucks from Europe stand a good chance of spending another lifecycle on African roads.

Market entry strategies

Many Western OEMs entered the African continent at the end of the last century. Consequently, global OEMs from the Triad markets account for the main share of trucks sold. For instance, to directly cater to the continent's truck markets, Volvo Trucks operates plants in Morocco, Tunisia, and South Africa. Daimler Trucks is also engaged in South Africa, where it operates plants for complete truck assembly, manufacturing truck components, as well producing chassis for Mercedes-Benz busses. Interestingly, the global German supplier ZF Friedrichshafen formed a joint venture with the SNVI (Société Nationale des Véhicules Industriels) in Algeria in 2004. Since then, the company ZF Algérie has leveraged the low-cost base in the North African country and produces vehicle transmissions for commercial vehicles.

Chinese and Indian manufacturers increasingly aim to expand their exports to Africa. The main features of their trucks (such as the ability to handle heavy road conditions and overload) fit African demands extremely well. Besides selling trucks in the region, emerging OEMs also see Africa as an ideal testing ground for the expansion of their global production footprint. Tata Motors, for example, not only sells its trucks in eleven African countries, but has also operated a bus body assembly plant in South Africa since September 2010, and plans to start producing small and medium sized trucks in the country for 2011. Another example is China's Beiqi Foton, which recently began constructing a North Africa production base in Kenya. Assembly is planned to start in 2012, with an annual production capacity of about 10,000 units.

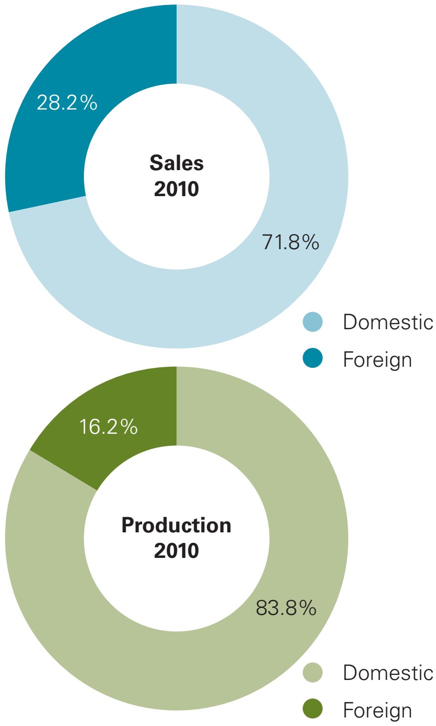
4.3 Russia

4.3.1 Market structure & development

Russia's commercial vehicle market is heavily influenced by Europe – but still largely defined by low technical standards

Due to its geographical proximity, the Russian market more closely resembles the European models than Indian and Chinese models. In general, this means there should be greater opportunities for premium trucks. Although technically-simple trucks continue to dominate, in 2010 close to 30 percent of domestic truck demand was attributable to foreign providers. The heavy political influence, however, means local manufacturers still account for over 80 percent of domestic truck production. The reluctance of foreign manufacturers to produce vehicles in Russia means that, traditionally, Russia is the only one of the three emerging countries in this report to meet its excess demand with imported Western trucks and is not likely to face serious overcapacity any time soon.

Domestic vs. foreign sales and production



Source: IHS Automotive, KPMG International

"In 3 years imported trucks will most probably make up 40–50 percent of the Russian truck market. Premium trucks will primarily come from Europe, while the low-cost segment will be dominated by Chinese manufacturers."

Ashot Aroutunyan, Director of Marketing and Advertising, KAMAZ OAO (Russia)

The Russian commercial vehicle market suffered dramatic losses due to the global downturn

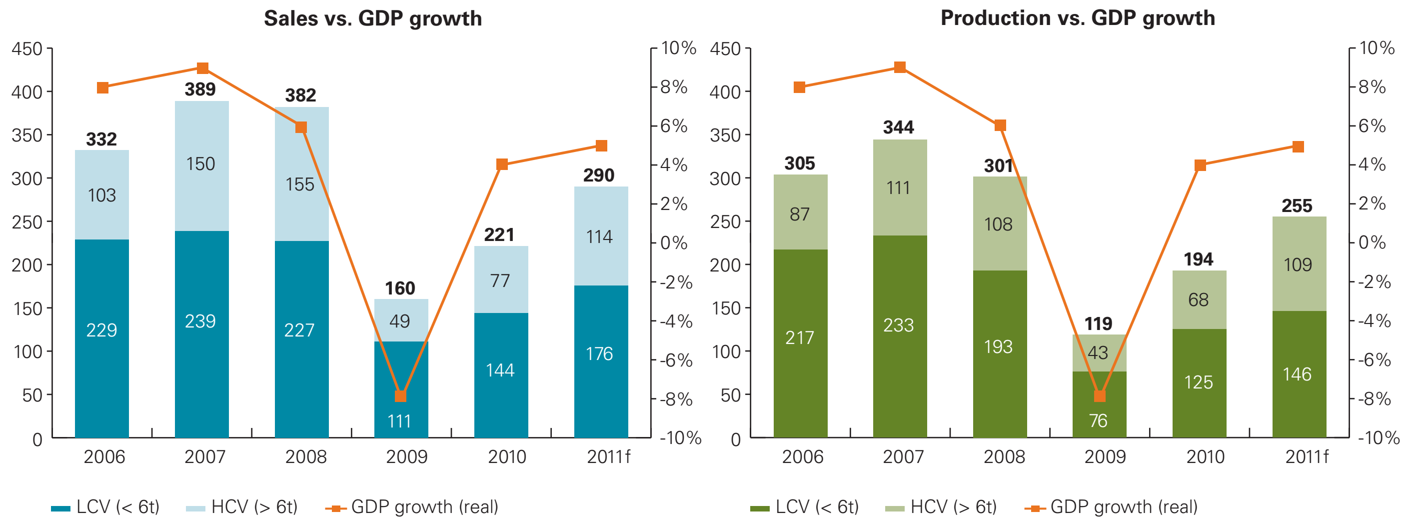
As a result of the financial and economic crisis, the Russian market suffered more than other emerging commercial vehicle markets. Before the crisis, the market for light commercial vehicles was growing. By 2008 this growth was slowing, and in 2009 the market totally collapsed, losing more than 50 percent of its pre-2008 volume.

Sales were growing again by 2010, but even with growth rates of around 28 percent, the market for light commercial vehicles is still far from its pre-crisis level.

Around 30 percent of internal demand is attributable to foreign manufacturers.

The market for heavy commercial vehicles suffered a similar fall. Pre-crisis, the market increased by 50 percent between 2006 and 2008, profiting from the boom in the construction sector and rising domestic consumption. From 2009, however, the market contracted by around 70 percent within 12 months. Although growth is returning, the market for medium and heavy trucks over six tons is expected to take longer to recover than the LCV market.

Sales and production in the Russian commercial vehicle market (2006–2011)



Source: IHS Automotive, Deutsche Bank Research, KPMG International

4.3.2 Competitive environment

Local commercial vehicle manufacturers dominate the Russian market, despite many established market participants from Triad countries

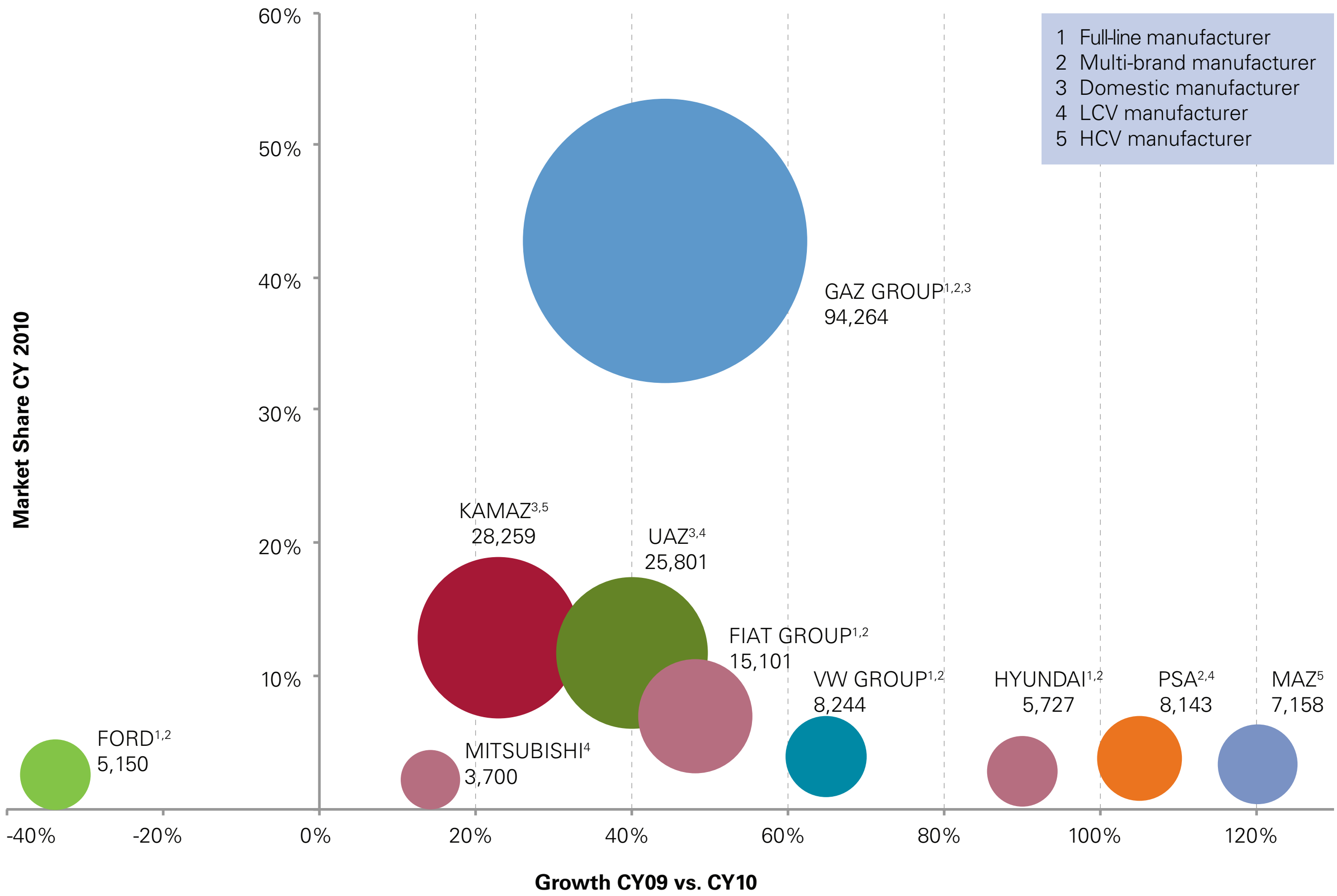
The three largest providers of trucks in Russia, measured by unit quantities, are all local. The leader is the Gorkovsky Avtomobilny Zavod (GAZ) Group, which is active in both light and heavy commercial vehicles. Despite losing more than half its market volume between 2007 and 2009, GAZ is the clear market leader, with a market share of more than 40 percent. With over 90,000 units, GAZ sold about three times as many vehicles as its two largest Russian competitors in 2010.

The two main competitors are KAMAZ (HCV) and UAZ (LCV), each of which specializes in one market segment. Together, they account for an additional 25 percent of the overall market. UAZ (Ulyanovsky Avtomobilny Zavod) is a subsidiary of Automobil-Holding Sollers (formerly SewerstalAwto), while KAMAZ is majority-controlled by a state-owned conglomerate. German group Daimler AG also holds an 11 percent equity interest.

The rest of the market comprises manufacturers from Europe, the US and Asia. One exception is the MAZ Group, from Minsk in Belorussia, which has been manufacturing heavy trucks jointly with the German MAN Group since 1997.

GAZ, KAMAZ and UAZ dominate the Russian market with a combined share of 67 percent.

Market share and market growth of the 10 largest commercial vehicle groups*



* Light commercial vehicles up to six tons + heavy commercial vehicles over six tons
Source: IHS Automotive, KPMG International

Bubble size = sales volume CY10
CY = calendar year

> The European OEMs VW, Fiat, and PSA posted strong sales growth in Russia in 2010.

Among the foreign manufacturers, the Fiat Group (market share: ~7 percent) and the VW Group (market share: ~4 percent) have the best foundations for further growth, with their modern trucks comparing well with Russian providers. The fastest growing European provider in Russia in 2010 was the French PSA Group. Showing growth of over 100 percent, unit sales more than doubled.

The only loser in the top ten is the American Ford Group, which has lost over half its market volume since 2008. However, Ford has recently signed an agreement with the Russian Sollers automobile group for the joint production and marketing of automobiles and light commercial vehicles, so in the medium term Ford should be able to turn around this decline.

Light commercial vehicles are dominated by local manufacturers, but foreign OEMs are encroaching

Even in the pre-crisis years of 2006 to 2007, market leader GAZ posted a substantial decline in new registrations. Foreign brands such as Fiat, Peugeot and Volkswagen profited from this, gaining sales at the expense of GAZ. Fiat, in particular, achieved excellent growth and increased its commercial vehicles unit sales from 63 LCVs to more than 13,000 in 2010, half as many as UAZ, the second-largest Russian provider. The PSA Group is likewise developing successfully, primarily via the Peugeot brand. Unit sales of French commercial vehicles have increased despite the crisis. Volkswagen and Mitsubishi, conversely, both suffered substantial losses in terms of unit sales as a result of the crisis, but were already showing growth trends again by 2010.

These developments clearly indicate that customer demand was already shifting towards more technically and environmentally advanced foreign vehicles, even before the crisis. This trend is expected to intensify further as the Russian economy recovers.

Increases at Fiat, Peugeot, and Volkswagen are coming at the expense of local industry leader GAZ.

Top 10: New light commercial vehicle sales by brands

Brand (Group)	2006	2007	2008	2009	2010
GAZ	156,969	150,057	121,336	49,884	70,825
UAZ	29,909	32,269	33,272	18,459	25,801
Fiat	63	309	6,847	9,141	13,310
Peugeot (PSA)	903	1,282	2,741	3,058	6,299
VW	2,074	3,697	8,089	4,727	5,931
Ford	5,108	9,649	12,638	7,766	5,113
Mitsubishi	1,954	6,077	7,690	3,239	3,700
Mercedes-Benz (Daimler)	1,770	2,675	3,063	1,385	2,123
Citroen (PSA)	611	614	485	912	1,844
Nissan	775	2,109	3,291	1,787	1,836

YoY increase YoY decrease

Source: IHS Automotive

The market for heavy trucks must overcome enormous sales declines by all manufacturers

Market leader KAMAZ had to withstand a unit sales decline of over 40 percent in 2009. In contrast to GAZ in the light commercial vehicle segment, however, KAMAZ did not sacrifice unit sales to foreign rivals. KAMAZ and the GAZ Group, with its two brands GAZ and Ural, continue to dominate the local market for heavy trucks, with a combined market share of almost 70 percent. With two exceptions, Isuzu and Zil, domestic as well as foreign players benefited from the recovery of the Russian construction economy in 2010. Nevertheless, all market participants are still far from their pre-crisis sales volumes.

Three foreign brands in particular – Hyundai, MAN and Volvo – suffered dramatic declines in sales volumes between 2008 to 2009, after having achieved respectable market positions pre-2008. The most startling example is Munich-based truck manufacturer MAN, whose sales in Russia dropped from 9,000 units in 2008 to just 347 the following year.

With the upturn of the Russian economy, foreign manufacturers in the heavy duty sector, with their more modern product portfolios, are expected to gain market share and put local manufacturers under increasing pressure. However, a complete recovery to pre-crisis levels is not expected earlier than 2012.

MAN's sales plummeted from 9,000 units in 2008 to 347 in 2009.

Top 10: New heavy commercial vehicle sales by brands

Brand (Group)	2006	2007	2008	2009	2010
KAMAZ	32,327	39,206	39,309	22,966	28,259
GAZ	26,787	27,743	24,484	6,473	11,957
Ural (GAZ)	9,704	15,731	15,164	6,855	11,162
MAZ	11,807	10,805	12,249	3,251	7,158
Hyundai	3,073	4,847	5,481	550	4,050
MAN	1,549	4,313	9,242	347	2,721
Scania (VW)	2,754	5,078	3,787	185	2,302
Isuzu	59	2,132	10,025	3,871	1,838
Volvo Trucks	2,691	4,629	7,009	449	1,826
Zil	7,127	10,272	5,163	2,448	1,259

YoY increase   YoY decrease

Source: IHS Automotive

4.3.3 Market characteristics

CUSTOMER REQUIREMENTS

Replacing commercial vehicle inventories will strengthen the position of foreign manufacturers with more sophisticated products

With nascent growth in the Russian economy, there is greater potential for foreign manufacturers to conquer a larger market share. The demand for more sophisticated foreign trucks in particular will grow, because long distance freight transporters and those in the construction business need highly reliable and capable trucks.

Two reasons suggest this: Firstly, these industries are recovering the fastest following the collapse of the Russian economy. Secondly, the transport of goods by road is increasingly attractive, compared with expensive air transport, limited shipping possibilities and an already strained rail network.

Freight traffic in Russia

Traffic in million tons km	2000	2004	2005	2006	2007	2008	2009	2010
Transport of Goods by Road	152,735	182,141	193,597	198,766	205,849	216,276	180,136	199,341
Total share	9.8%	9.1%	9.4%	9.2%	8.9%	9.4%	8.7%	9.0%
Transport of Goods by Railway	1,373,178	1,801,601	1,858,093	1,950,830	2,090,337	2,116,240	1,865,305	2,011,308
Total share	88.1%	90.2%	90.2%	90.3%	90.5%	92.0%	90.2%	90.8%
Transport of Goods by Air	2,515	3,003	2,830	2,927	3,424	3,692	3,558	4,711
Total Traffic	**1,557,834**	**1,998,201**	**2,059,689**	**2,159,606**	**2,310,037**	**2,300,068**	**2,068,204**	**2,215,360**

YoY increase   YoY decrease

Source: Federal State Statistics Service of the Russian Federation

Ultimately, however, the primary driver of the Russian commercial vehicle market will continue to be the political system. For example, emission standards are scheduled to be gradually tightened to Euro IV and later Euro V, leading to a greater focus on green issues. With stricter environmental standards foreign manufacturers will benefit as a result of their technological advantages over Russian manufacturers.

TOTAL COST OF OWNERSHIP

Purchase price is the number one criteria because total lifecycle costs will remain low

In a mature market, the cost of fuel makes up a huge part of the total operating cost of a truck (e.g. 30 percent in Western Europe). In Russia, fuel prices are not directly controlled by the government but rather by state-owned oil companies, which occupy a monopoly position in many Russian regions. According to the Federal State Statistics Service of the Russian Federation (ROSSTAT), diesel prices have risen by ten times since 1998. Therefore, they will increasingly impact the decision-making of truck operators and owners. Other follow-up costs such as commercial vehicle taxes, tolls or insurance fees, do not greatly influence the purchase decision of Russian truck manufacturers.

According to the ROSSTAT, the monthly salaries of people working in the transportation industry in Russia rose at a compound annual growth rate of 29 percent from 1995 to 2009. But coming from a very low base, this also increased affluence plays a minor role, and still leaves the initial purchase price as the main criteria for truck operators in Russia.

ADDED-VALUE SERVICES

Service demand will only slightly increase over coming years

The Russian truck market is primarily characterized by low technical standards. Most owners take care of their own maintenance needs. However, the increasing demand for high quality trucks, as well as the ongoing exchange of existing trucks, will lead to a greater need for professional services. Russian industry specialists believe an extensive service network, along with innovative distribution models, could substantially increase the demand for new and used commercial vehicles from abroad.

For example, Volvo already offers comprehensive service contracts in Russia, including all service and repair work, making it far easier for owners to calculate service and maintenance costs.

However, given the sheer size of Russia, establishing a service network and distribution chain will be one of the primary challenges for foreign OEMs. Co-operating with local partners is therefore the most promising option.

> Establishing a service network and distribution chain will probably be one of the primary challenges for foreign OEMs.

> “It sounds like a banality, but Russia is an enormously huge country. How can we establish a nearly comprehensive service network at a reasonable cost? At this point, a joint approach with KAMAZ generates real benefits and advantages.”

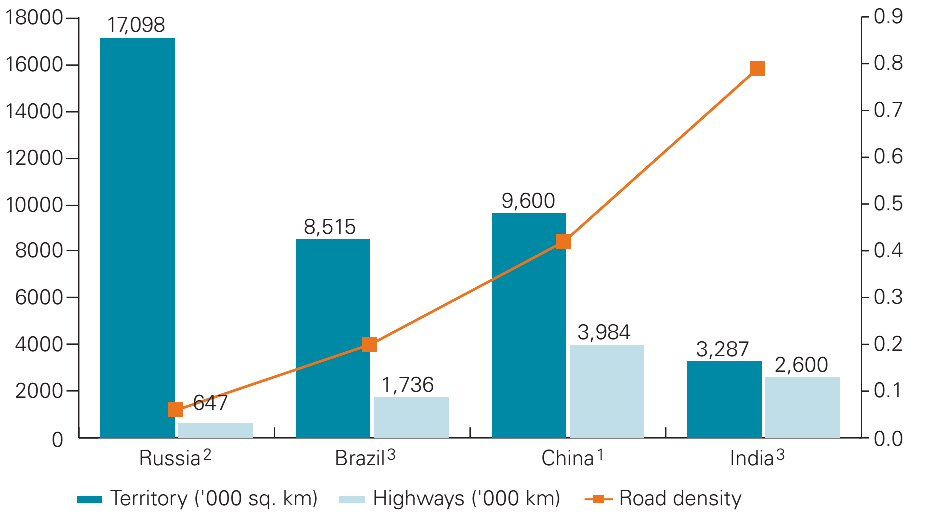
Andreas Renschler, Member of the Board and Head of Daimler Trucks Division, Daimler AG (Germany)

FLEET MANAGEMENT

Fleet management services are low on management agendas

The number of forwarding companies in Russia is officially not known. The association of Russian forwarding companies, Assoziazija Ekspeditorow Rossii (AER), assumes that approximately 1,500 to 2,000 companies are active in the market. In Soviet times, all trade and transit of goods was conducted via three governmental contractors, Sojuswneschtrans, Sojustransit and Techwneschtrans. Nowadays, these strict structures have dissolved and the number of forwarding companies is increasing, and will continue to rise in the years to come. Nevertheless, fleet management is still a big challenge in Russia. Covering an area of more than 17 million square kilometers, Russia is the biggest country in the world. It is almost twice the size of China and more than five times bigger than India. Fleet management services require an extensive road, information and telecommunication network. Owing to the very low road density with less than 0.04 kilometer of public roads per square kilometer of land, fleet management services are on the agenda of neither fleet operators nor fleet management providers.

Road density derived from territory size (sq. km) and length of highway networks (km)



[1] Data from 2010
[2] Public roads in operation (2009)
[3] Data from 2008

Source: BRICS Joint Statistical Publication 2011, National Bureau of Statistics of China

KAMAZ

Interview with Ashot Aroutunyan,
Director of Marketing and Advertising at KAMAZ OAO (Russia)

Succeeding in the Russian market is difficult without global partners

Ashot Aroutunyan, director of marketing and advertising at Russia's leading heavy truck manufacturer KAMAZ, expects the market to recover to its 2008 level by 2013 at latest, possibly even earlier.

"Looking at the first two months of 2011, I am optimistic that 2012 is definitely possible", he says.

With the economic crisis, Aroutunyan says the structure of clients and industries served changed dramatically for KAMAZ. In the construction industry, for example, demand dropped considerably and he does not expect it to recover for another two years. In contrast, demand for agricultural vehicles has already returned to its 2008 level. The same is true for the oil industry, where the market recovered rapidly.

Another driver for KAMAZ is the commercial transport sector. "Although 2009 was still very tough, this area is gaining significant strength due to the demand for long-haul and flatbed trucks," says Aroutunyan. There are 1.5m trucks in Russia, but state records show that only 750,000 of these are actually in operation. Moreover, 600,000 out of those 1.5m Russian trucks are older than 20 years. This clearly has a significant impact on low efficiency levels, high breakdown rates and environmental pollution. Aroutunyan also emphasizes, that the Russian commercial vehicle fleet is due for renewal. Accordingly, the Russian government is currently developing a dedicated program aiming to achieve substantial truck modernization.

The most significant obstacle to achieving this modernization is the low capacity of Russian manufacturers, although he is sure that, "the capacity deficit of Russian manufacturers can be compensated by foreign manufacturers, mostly from Europe and China, but supporting foreign producers is certainly not the Russian government's intention."

KAMAZ engages in partnerships for automotive components manufacturing with leading suppliers like ZF and Cummins. It also partners with global OEMs like Daimler to manufacture complete trucks in Russia, and this is another area of planned growth for KAMAZ. "We plan to extend our partnerships, especially in AWD trucks, special trucks and long-haul trucks manufacturing," Aroutunyan says.

KAMAZ is planning to extend its own international market coverage, too, to capitalize on the growth of the global truck market. "Our share in Russia is already high. It is hard to get more – that's why we should be a global company," he says.

To this end, the company has launched a joint venture with Indian manufacturer Tatra Vectra which, according to Aroutunyan, should enable KAMAZ to sell 10,000-15,000 trucks per year in India within five years.

Although the company has no official plans for partnerships in the Chinese market, he estimates that KAMAZ could also be selling about 15,000-20,000 units in China within the next five years.

4.3.4 Globalization strategies

MARKET ENTRY STRATEGIES FOR GLOBAL OEMs

Cooperation agreements with Russian manufacturers are preferable to solo ventures

The Russian market is highly consolidated, with relatively few national manufacturers. The Russian government emphasizes localization of production. To date, no further statutory rules have been published, but a tightening of import regulations and the granting of benefits for locally produced commercial vehicles is expected. In recent years, the Russian government has pushed to increase domestic value creation, particularly for the passenger car market. For example, Decree 166 regulates the conditions for automobile manufacturers and suppliers concerning local assembly in Russia. Currently, truck providers receive benefits if they maintain at least one CKD production unit in Russia with a 30 percent local content share and annual output of 25,000 vehicles.

More emphasis will be placed on the localization of production in Russia.

Co-operation with local players is an appropriate way to enter the market. One example is Daimler's deal with KAMAZ, the Russian market leader for heavy trucks. Daimler currently holds an 11 percent stake in KAMAZ. The companies have already formed two joint ventures with each other, in which each party holds 50 percent of the shares.

FUSO KAMAZ Trucks Rus is responsible for the import, production and distribution of FUSO trucks and began producing and distributing the Canter light truck in the first quarter of 2010.

Mercedes-Benz Trucks Vostok initially began production of Actros and Axor models of the Mercedes-Benz brand. The distribution of Mercedes-Benz trucks started on January 1, 2010. The SKD production facilities for FUSO and Mercedes-Benz are both in Naberezhnye Chelny, the production headquarters for KAMAZ. In exchange, KAMAZ receives technology and distribution know-how from Daimler.

There are other approaches. For example, Volvo Trucks has been active in Russia for more than 30 years. Initially, it imported its vehicles. In 2009, it opened an SKD truck plant in Kaluga, where it produces trucks with independent subsidiary Volvo Trucks Russia. Manufacturers of light trucks, such as Hyundai, Fiat and Isuzu, have also been active in Russia with their own production or distribution operations for some time. This perhaps explains why these have long been the most successful foreign OEMs in Russia, in terms of market share.

GLOBALIZATION EFFORTS BY EMERGING OEMs

Globalization of Russian commercial vehicle manufacturers is unlikely

Russian truck brands have an international presence dating back to the times of the Soviet Union and COMECON, but due to lack of competitiveness it is not being further expanded.

The only provider from Russia active on a truly international scale is KAMAZ. However, its main foreign markets (Kazakhstan and Ukraine) are former sister states of the Soviet Union, lacking their own vehicle production.

KAMAZ is the only Russian manufacturer active on a truly international scale.

KAMAZ has a UAE-domiciled distribution enterprise called KAMAZ International Trading for the Middle East and Northern African markets. Worldwide exports make up almost one-quarter of KAMAZ's production. In India, the company operates a joint venture with the Vectra Group, called KAMAZ Vectra Motors, to distribute its own trucks. However, only eight-wheel heavy-duty trucks are currently being sold. The joint venture was launched in 2009. It sold an estimated 1,300 units in India in 2010, representing a market share of about 0.4 percent. Additionally, individual KAMAZ trucks find their way into some Central and South American countries, such as Cuba and Venezuela, and in Southern African countries, such as Burkina Faso and the Ivory Coast.

Before KAMAZ engages in further globalization activities, it aims to strengthen its market position in neighboring former Soviet countries and its presence in current Middle East and Africa markets, as well as its joint venture in India. The company's other strategic priority is to improve its labor productivity. In Europe, for instance, employee effectiveness is three times higher. This means a MAN employee assembles three trucks per year on average, while a KAMAZ employee assembles only one truck in the same time.

The two other largest Russian manufacturers, GAZ and UAZ, do not undertake any significant international activities and are not expected to do so in the foreseeable future.

4.4 Prospects of convergence between emerging and mature markets

There will continue to be serious structural differences between Triad and emerging truck markets.

The alignment of emerging markets with mature Triad markets is strategically important for manufacturers everywhere. Future developments will show how quickly existing differences can be balanced. Therefore two key questions emerge:

- Can established commercial vehicle manufacturers service the growing demand for trucks in emerging markets with their current technical concepts tailored to the European or North American market?
- Can providers from emerging markets conquer a significant market share in Triad markets with their low-cost trucks?

The reasons for the different market focuses lie in differing customer demands, the infrastructure, and the level of state regulation in the respective countries.

Comparison: Triad vs. emerging truck markets

TRIAD	vs.	EMERGING MARKETS
▪ High degree of saturation/strongly cyclical ▪ High share of heavy trucks	MARKET	▪ Cycles along growth trend ▪ High share of medium and light trucks
▪ Well-developed infrastructure	INFRASTRUCTURE	▪ Infrastructure defective, above all for heavy trucks
▪ Professional customers with strong TCO orientation ▪ Consistent compliance with statutory requirements ▪ Driver orientation ▪ High logistical demands	CUSTOMERS	▪ Fragmented customer structure with many owner-drivers ▪ Focus on low acquisition costs ▪ Overload-bearing capacity ▪ Low logistical demands
▪ Highly consolidated markets with trend toward full-line manufacturers ▪ Low level of vertical integration	COMPETITION	▪ Quite fragmented locally dominated markets ▪ High level of vertical integration
▪ High statutory requirements with respect to the environment, safety and worker protection	STATUTORY REGULATION	▪ Increasing statutory requirements, but fragmented enforcement

Source: Institut für Automobilwirtschaft [Institute for Automotive Research]

State regulations, customer requirements, and infrastructure will determine the convergence.

Greater potential for convergence exists in China and Russia than in India

Triad markets are united by three key factors: comprehensive statutory regulations, high customer requirements and a well-developed infrastructure. Transposing these factors into the Chinese, Indian and Russian markets, it is clear that, despite their differences, there is considerable convergence potential in all three.

Prospects of convergence in selected emerging markets

		China	India	Russia
Statutory regulation	Limit values for emissions of harmful substances and noise	heavily rising	rising	rising
	Safety standards	rising	rising	rising
	Nationwide implementation	low	very low	very low
Customers	Logistical demands within the framework of industrial division of labor	sharply rising	rising	rising
	Orientation toward acquisition costs	still high	still very high	still high
	Employee recruiting	low relevance	low relevance	rising relevance
	Professionalism of commercial vehicle operations	rising	only weakly rising	only weakly rising
	Importance of owner-drivers	still high	very high	high
Infrastructure	Quality of road network	sharply rising	rising	rising
	Road pricing	increasing importance	continued low importance	continued low importance
	Telematics systems	sharply rising importance	importance rising	importance rising

Source: Institut für Automobilwirtschaft [Institute for Automotive Research]

Nevertheless, a complete convergence of the markets cannot be expected within a typical planning horizon (10 to 15 years). Most likely three distinct market segments are expected to evolve in emerging markets:

- The **low-cost segment,** with technically simple and cheap trucks.
- The **modern domestic segment,** with further developed, robust and still extremely favorably-priced trucks.
- The **premium segment,** with technically high-quality and high-value trucks from European, North American and Japanese OEMs.

According to estimates from the Institute for Automotive Research, market convergence by 2020 will favor the modern domestic and premium segments in all three emerging markets, without completely suppressing the low-cost segment. The precise balance will most likely depend on the market's specific characteristics as described in previous chapters.

The segment of "modern domestic" trucks will see the strongest growth in the medium-term.

Its proximity to Europe means that the Russian market is expected to evolve the most in relative terms. By 2020, the market share of premium trucks is estimated to double, while the share of modern domestic trucks will triple, leaving only a 20 percent share for low cost trucks (from 70 percent in 2010). Of course, from a global perspective absolute sales will remain considerably lower than in India and China.

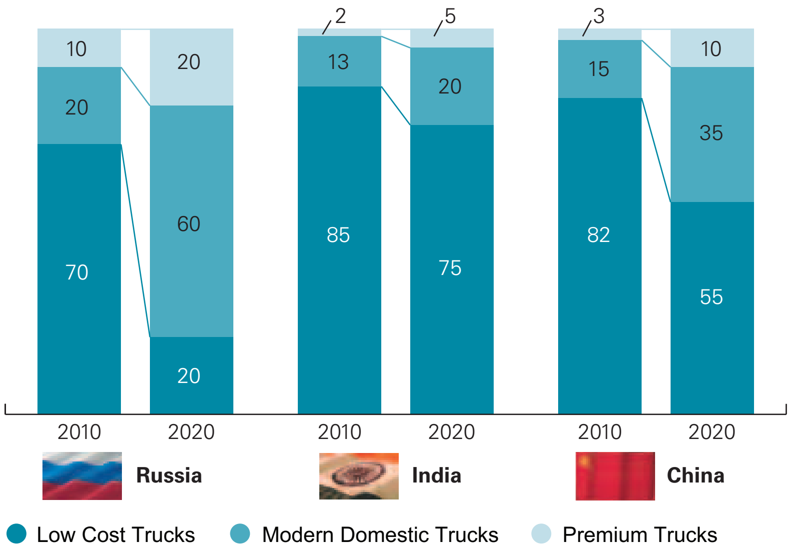
> **“There will definitely be a rising demand for technically more sophisticated and higher value trucks in the emerging markets. But these European-style trucks will only represent a market niche for quite some time. Unified environmental standards alone will clearly not lead to a full convergence any time soon.”**

Andreas Renschler, Member of the Board and Head of Daimler Trucks Division, Daimler AG (Germany)

Significant structural changes are expected in China as well, albeit not as drastic as in Russia. Owing to the intense efforts of the Chinese government and the increasing number of joint ventures between emerging and established OEMs, both the modern domestic segment and the premium segment are expected to account for a considerable share of the market by 2020.

India, on the other hand, is trailing behind. The Institute for Automotive Research believes that market segmentation will only change slightly by 2020. With a 75 percent share, the low cost segment is still expected to dominate the Indian market for a long time yet.

Shift of the segment structure in the emerging markets



Source: Institut für Automobilwirtschaft [Institute for Automotive Research]

NAVISTAR

Interview with Dee Kapur,
President of the Truck Group and

Jack Allen,
President of the North American Truck Group at Navistar International Corporation (USA)

Predicting sweeping changes to the global truck market

Although demand for trucks is expected to remain high, new approaches will be necessary as OEMs adapt to worldwide changes triggered by technological, economic and regulatory shifts.

Domestically, Dee Kapur, president of Navistar's Global Truck Group, believes road haulage will still be vital for transporting goods. Emerging markets such as China and Brazil are expected to share the US's healthy appetite for haulage. Like America, these are enormous, widely-populated countries with huge scope for mass road network developments.

"Transporting goods between the hinterland and the ports in China can mean journeys of thousands of miles," says Kapur. "That's why we could see a movement there towards the kinds of commercial vehicles which currently ply US roads."

A similar gravitation towards heavier trucks should emerge in India, he believes, but this might take longer because India's traffic levels make lower-displacement, lower-powered engines more attractive.

The industry is fully aware of its need to continue evolving. Jack Allen, president of Navistar's North American Truck Group, says that advancements in the commercial vehicle sector will be driven by both legislation and consumer demand.

"There is increased regulation on things like emissions and safety regulations, which means more cost," he says. "Our customers expect us to offset these changes through innovation. We've addressed things like fuel economy, weight, and driver environment. Next, we'll see technologies such as collision avoidance systems, stability systems – anything which can reduce their overall costs further."

In terms of competition with foreign OEMs, value-driven models produced by manufacturers in emerging economies are already threatening the dominance of established global players. "It could take one or two cycles for them to compete fully," says Kapur, "but we should not underestimate them in any way."

As Navistar has discovered, one tactic for branching out into emerging markets is to form local alliances, such as its own joint venture with Indian manufacturer Mahindra & Mahindra in 2005.

Allen, meanwhile, notes that over the past two decades, the export market has been "feast or famine", largely dictated by the strength of local currencies. Building vehicles in local markets should offer OEMs a lot more control.

"In China, the duty on built-up commercial vehicles is about 25 percent," says Kapur. "Even components have a fairly significant tariff – about 15 percent in India, for example."

In response, Navistar is stepping-up its political lobbying for these limitations to be eased. If they are successful, the global prospects for the commercial vehicle industry will be even more enticing.

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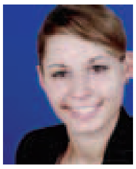

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