

Russia automobile industry



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INTRODUCTION

As a result of faster, easier and comfortable transportation, the world economies have provided a dependent mobility that automobiles, cars, buses, and trucks. This mobility allowed easy transportation between populations and give them a chance to interact with each others, which also play major rule commerce increscent. Transportation the goods to and from consumers has become an industry by itself. The automobile has caused some none direct problems, such as air pollution, congested traffic, and highway fatalities. Even so, the automobile industry becomes an important source for employment and transportation for millions of people around the world.

This case study presents a sample analysis of the Global Automobile Industry. The focus of this analysis is the car industry of Russia. This country is considered as one of the world's superpowers alongside with the United States from year 1945 until its break-up in 1991.

Russia was the largest Republic of the former Soviet Union but it was dissolved in 1991. It is also one of the 15 union republics who belongs to the Union of Soviet Socialist Republics (USSR) or commonly known as the Soviet Union. It was a model state governed only by the Communist Party.

It was liberated from the Union and has been liberalizing ever since then. Russia's economy has withstood a transition from ' Shock Therapy" to ' Consumerism'. Income levels have been rising and economy has been growing.

There are two related developments that usually control the important trends in the automobile industry- increased competition and globalization. Intensified competition leads manufacturers and parts suppliers to enter and compete in foreign markets in order to leverage in brands, development, engineering, and productivity cost.

Automobile industry in Russia faces several challenges since that time. But, it completes to compete until it became a hub for a world-perfect service and earns a brand loyalty.

TRENDS IN AUTOMOBILE INDUSTRY

Automobile considers one of the most important manufactures in the world, touching both the world cultures and economy as well. It provides employment opportunity for millions of people bringing forth billions of dollars in worldwide revenues

Automobiles made revolutionary steps in transportation in the 20th century, changing the ways of travel, business and living. There is a dramatically development in the automobile business on a worldwide basis. Merging both cars and parts manufactory, component design and manufacture are now mostly imported from outsourced; moreover a noticeable change in brands and the gigantic automobile companies are expanding into providing a new financial services to car markets.

On the dealership side, huge, countrywide holding companies have acquired the best cars Agents in leading markets. The used car market is being taken over by national chains as well.

Electronic commerce is having a deep impact on the car industry. Nowadays Consumers are using the internet to do some searches before making any automobile purchases. Online sites like 'traderonline, Autobytel and savemoneyoncars' steer millions of car buyers toward specific sellers while the same sites deliver competing bids for cars, spare parts, insurance and financing in a manner that lowers costs and improves satisfaction among costumers.

Thus, automobile producers are using the latest electronic commerce methods to manage their consumers and replenish their products.

The automobile has opened wider market areas for commerce and business, enabling people to save lot of time while travelling and transportation goods. In addition this industry has also reduced the overall transportation cost by using methods such as mass marketing (selling products nationally rather than locally), mass production (making many products at once, rather than just one at a time), and globalization of production (using the outsourced parts in assembling products). Between 1886 and 1898, about 300 automobiles were built, but there was no real established industry. A century later, with the expanding of both automakers and auto consumers globally, auto industry became the world's largest manufacturing activity, with almost 58 million new vehicles built each year worldwide.

It is essential to note that another important set of data that should be definitely considered when evaluating the automotive industry: The list of top exporting and importing countries and the list of best producing countries. these data gives us a good idea of what countries are associates

in this global industry, by evaluating the best producers and where they are producing these products, it's also allows us to infer distribution trends of passenger vehicles and to reach a conclusions of which countries have the economical and healthier industries. Upon looking at a recent group of data that tracks the passenger's vehicle production by country, region, and manufacturer it is clear that European and Asian companies are the highest producing group of firms in the industry and that the largest market for passenger vehicles goes to America.

As mentioned before, General Motors, Ford and Chrysler are losing important market share to foreign producers. Increased consumer demand for luxury and higher costs plays the main rules for the loss. As the raw materials and oil prices have risen up, the production costs have gone up as well. While automobile manufacturers from all countries are faced with these harsh challenges, only the United State companies have to deal with labour unions. Employee benefit costs, particularly those related to healthcare have been rebelled sharply over the past several years. For example " between 1999 and 2005, GM's non-pension retirement benefits (mostly healthcare) rose at a compound annual rate of 10. 6%. Automakers must also tackle consumer demand for better safety and electronics features."*

* The example was abstracted from Global Value Chain.

As a Ways of the luxury demanded by the consumers are the electronic stability program, premium sound systems, the GPS navigators, antilock brakes, airbags, turbo, hydraulic system and rims. However, even thought the United State automobile dominates the market with a 91. 4% in 2005, its

still under threat. This threat occurs after the foreign presence in the pickup trucks. Whereas, Nissan titan and Toyota Tundra have become more popular in the US market.

The major companies of the Automobile Industry are mentioned below:

General Motors Corporation - Employing a whopping 335, 000 people, GM is the largest vehicle manufacturer in the world. It is headquartered in Detroit, Michigan, but it has operations in roughly 55 countries outside the U. S. and Canada. GM owns other manufacturers, including Chevrolet, Pontiac, and Hummer.*

DaimlerChrysler AG - A very diversified company, DaimlerChrysler produces everything from sports cars to utility trucks. It is headquartered in Stuttgart, Germany, and primarily operates in the U. S. and Western Europe.*

Toyota Motor Corporation - Toyota is the epitome of a worldwide company, selling vehicles in more than 170 countries and regions. It is headquartered in Toyota City, Japan, and employs approximately 285, 980 people. Ford Motor Company - Ford's brands include Lincoln, Mercury, Jaguar, and Volvo. The company manufactures and distributes automobiles across six continents. It primarily operates in the U. S. and Europe, and it is headquartered in Dearborn, Michigan*

* The company's history and information's have been taken from their web sites.

Note that the " Big Three" US manufacturers fall dramatically behind Japanese auto producers. However, the auto industry's international trade

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patterns suggest that there are a strong set of companies and countries who dominate the worlds share of exports, imports, and production.

As an example, the top five exporters in the year 1985 are still remaining the top five exporters in the year 2005 and of the top five importers in the year 1985, just one of them are currently not included in the top five.

Particularly consistent in their standings were Japan and Germany as exporters; they have shared the top two positions for each twenty years.

The decrease of diversity within the who are in the leading exporters and importers of passenger vehicles is an attract trend in the automobile industry. Also many of the countries may like to become a major worldwide player, due to nature of high capital of the industry and it's a fact that top companies who are leading, are so far ahead in the market share, it's hard to look at a specific country which is taking the firm by storm in a short time period of 20 years such as the South Korea.

In the year 1998, twice as many vehicles were produced by the European manufacturers, as the United States counterparts. On the other hand, North American companies were responsible only for around 20% of the total amount of production in Europe countries. Although, Japanese industries, at the time representative of all the Asia countries, also were producing more vehicles than those in the United States and were also responsible for about 20% of United States production. On the other hand, the US didn't produce anything in Japan and nearly negligible amounts in Asia. In year 2005, Asia had become the biggest producer of the vehicles (passenger) with Japanese producing out the next two of top producers, North America and Germany.

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Anyhow after examining the trends into the production process, we can see that auto industry has to be to some extent globalized with many firms setting up manufacturing firms in the foreign countries. Anyhow, after comparing the three things which are exports, imports, and production data near the year of 2000, it's also apparent that the outsourced location manufacturing plants connect directly with the location of the large markets, especially the United States. This is a conclusion of two major factors: the government regulations and proximity.

The proximity between manufacturers and dealers is important in automobile firms, because of its high cost of its shipping auto parts and the necessity for vehicle/customer service. The big charge of shipping auto parts or the finished automobiles will also helps strengthen the vertical integration of auto fields as well.

Anyhow, as the companies are finding it harder to compete without starting outsourcing secondary tasks to the suppliers, and focusing on their origin competencies, we should assume to see more flexible administration system. Also important as the proximity is, government requirements are really what made industry into a globalized manufacturing arrangement. In lots of countries as the US, many of the government policies exist such as the tariffs, taxes and quotas, on the imports which force many of foreign companies to arrange manufacturing in some other countries so they can simply increase profitability. As an example of the sort of regulation between United States and Japan is the Voluntary Export Restraint law which limited in the import of the passenger vehicle which made in Japan. As a conclusion, the foreign companies are being forced to set up manufacturing plants into

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the large market countries so they can reach the consumers. As an example, in the United States the Toyota factory has 14 factories that balance for nearly half of the total vehicles production which is destined for the United States market. This has ended up toughening the foreign company. The industry of automotive develops, designs, manufactures, markets, and sells world's motor vehicles. In the year 2008, there have been more than 70 million motor vehicles, which included cars and the commercial vehicles were produced globally.

In the year 2007, a total of 71.9 million of new automobiles have been sold worldwide: 22.9 million in Europe countries, 21.4 million in Asia-Pacific countries, 19.4 million in USA and Canada countries, 4.4 million in Latin America countries, 2.4 million in the Middle East countries and 1.4 million in Africa countries. On the other hand the markets in North America and Japan were unmoving, while in the South America and other parts of Asia grew rapidly. The major markets like Brazil, Russia, India and China saw most strongly growth.

Around 250 million of the vehicles are in the use into the United States. Around the world, there use to be about 806 million of cars and some light trucks in the year 2007; they use to burn over 260 billion gallons of diesel and gasoline fuel yearly. The numbers are rapidly increasing, particularly in India and China. In some people's opinion, the urban transport systems which are based around the car have proved that unsustainable, the consuming excessive energy, which is affecting the health of the populations, and delivering a decreasing the level of service in spite increasing investments. Many of the negative impacts fall improperly on the

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social groups which are also less likely to drive cars. Also the sustainable transport movement is focusing on the solutions to these kind of problems.

In the year 2008, with the rapidly rising of oil prices, industries as the automotive industry, are experiencing combination of financial pressures from the raw material amounts and changes in the consumer buying attitudes. The industry is as well facing increasing in the external competitiveness from public transport area, as consumers re-evaluating their private vehicle usage.

Economic Transition of Russia from Command Economy to the Market Economy

The Soviet Union or ' Union of Soviet Socialist Republics (USSR)' had a socialist state from 1922 to 1991. It is also was seen as one of the world's superpowers alongside with the United States. In 1956, a huge growth reached 15 union republics and doomed them under one government roof and became then a perfect model state. After dissolution of the Soviet Union, the 15 union republics became independent.

Eleven unions aligned to form a loose confederation known as Commonwealth of Independent States (CIS). Whereas, Estonia, Georgia, Latvian and Lithuanian left the unions to live independently. Russia by then became the most influential member of the CIS and the successor in diplomatic matters of Soviet Union's. In June 1991, Boris Yeltsin became the elected president of Russia. On that year, Yeltsin announced that Russia would proceed with radical market -Many oriented reforms where discussed

to pass over the ' shock therapy'. In June 1992, an important things occur in the Russian industry which was:

- Russia became a full fledged member of the World Bank Group.
- After seven months, the International Monetary Fund granted US \$ 1 billion but with condition not to use it to finance budget deficit.

After the dissolution, Russia lifted price controls on 80% and 90 % for intermediate products. By the end of 1992, Even so the budget deficit was 20% of the Gross Domestic goods. In March 26 1993 Boris Yeltsin faced bad situations lead him to get expelled. But he controlled the reins and all the impeachment where dismissed. Obviously, he passed the crisis with Victor stepanovich help. Furthermore they introduced the anti-crisis program, controlling the inflation with fiscal and tight policies.

This program was controlled by a three main ways:

- Allow the central bank to increase interest rates on credits by issuing government bonds.
- close inefficient state enterprise.
- partially financing budget deficits

In 1994, stability on finances was officiated by the Central Bank as it issued credits to subsidized rates projects. In 1995, the government maintained its commitment to hold fiscal constraints firmly. Pressure started to mount on the government hub. In this year, the United State failed to address many obligations as the wages of most state workers.

Revenue shortages were blamed on number of factors, but by 1996, Russian enterprises and regional authorities had established a strong pattern of non-
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compliance with VAT regulations and police service was not able to catch violators. In 1997, Russia was now progressing and the inflation was brought under control. The Ruble was established and thousands of enterprises came under private ownership.

In the same year Asian Financial crisis affected the country. Sharp decline in Russia's earnings from oil exports which results to the exit of foreign investors.

In August 1998, Russia plummeted again to financial crises and inflation shot up by 84.5%. This negative impact to Russia affected its external balances and public finances as well. Russia became especially prone to external shocks caused by cyclical fluctuations in the world market prices and a great demand for primary commodities. In the same year, lack of progress in coping with budget deficit led to IMF tension. Investors too are anxious about the aftermath of Asian crisis.

Another setback for Russia during that time is the failure of Tokobank. Investors started to pull out the Russian GKO. The government failed to auction 75% stake in the oil giant Rosneft. In 1999, the gross domestic output increased by 3.2%. This increase was achieved despite of potential turmoil and the resignation of President Boris Yeltsin. The increase was brought about by rise in value of Russian exports.

Russia's strategy to profit from the favourable environment like: tripling of international oil prices, raising the monthly revenue from oil exports and raising the export surplus. On the negative side, inflation rose to an average

86%, ordinary persons found their wages falling by 30% and their pensions by 45%. GDP growth of 6.4% in 1999 and increased to 10% in 2000.

In 2001, the Duma passed a legislation to bring positive changes within the business and investment sector. Russia owns its economic stability despite of some challenges. In July 2002, The Government Concept of Automotive Industry Development came to existence. This new concept determined the goals, tasks and priorities in order to offer a package to combat the automotive conditions of Russia and it is applicable until 2010.

In 2003, cumulative foreign investment increased by 50% or US \$ 29.7 billion. Foreign Direct Investment rose by 69% or \$ 6.8 billion. Industrial output in 2003 grew by 7% compared to 2002. To sum up, Russia's overall trade surplus during 2003 was \$ 60 billion, up from \$ 46 billion during 2002.

US is one of the largest trade partners of Russia, saw exports raised by United State \$ 3 billion. In 2003, United State exports were electrical equipment, meat and machinery.

According to the World Bank, Russia's GDP in 2003 was \$433 billion.

The country's GDP shot up to US \$ 1.5 trillion in 2004 making it the ninth largest economy in the world and the fifth largest in Europe. It is expected to become the second largest European economy after Germany and the sixth in the world in the near future. To have a promising economic development, a strategy should be maximized first.

Russian economic growth in 2005 was influenced by three primary factors.

- A continuing rapid expansion of domestic income and demand
- Improvement in the expectations of investors
- Growing competitive pressures from the real appreciation of the Ruble
Russia.

In 2005, the Russian Gross Domestic Product was almost \$ 1. 589 trillion with a real growth rate of 6. 4% and the inflation rate was 11. 0 %.

Future of the Russian Car Industry

The auto industry in industrialized country like Russia leads the manufacturing sector. This particular sector has a great impact on the stability of the economic and political development of the society. The automotive sector is also the largest consumer of products like:

- Metallurgical.
- Petrochemical.
- Machine tool.
- Electrical industries.

In 2003, the ownership of cars increased to 152 cars per 1, 000 inhabitants which is almost thrice the 1993 rate of 59.

Another proof that the car industry of Russia is flourishing because of the annual care sales has increased from 800, 000 in 1992 to 1. 5 Million in 2003. With the production of 120 million vehicles in 2005, Russia has been ranked as the 13th largest manufacturer of the vehicles in the world. Backed by a flourishing economy, there has been a sudden hike in the demand for brand new domestic as well as foreign vehicles. Since the opening of the Russian economy and the ascend of in consumer spending, central and
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Eastern Europe have become major sales markets of the automotive industry. Sales rocketed up with an annual average of 7.3% to 3.4 million units in 2004.

Roland Berger Company has a great forecast that by year 2014 as many as 2.3 million new cars will be sold in Russia. With this positive development, Russia is expected to be one of the most growing markets in the world after China. The study claims that between 2004 and 2014, each year will have 100,000 more new vehicles. Foreign players present in the Russian automobile market include Ford, Kia, GM, Renault, BMW, Scania and Hyundai Motors Corporation.

With these predictions, it is very positive that the vehicle industry in Russia is a great potential market and it will exceed other countries that are with the same venture.

Opportunities and Competitive Challenges

Russian auto industry reaches the summit without any dips. Undoubtedly, a main two things that required from them to keep the smooth growth in its condition are:

- The automotive companies should have a workable strategies and targeted management.
- The need to stabilize the economic and legal framework in order to take advantage of the country's low labour costs and the size of its economy

Based on the information above, it's easy to predict that Russia has the ability to place itself in the first countries of exportation to the rest of the world. This exportation will deal with both vehicles and components, because they have many success features such as:

- Ample supplies of the most important Natural resources that support the modern industry, such as Natural Gas, Oil and uranium.
- Brilliant educated labours with a good technical expertise.
- The private satellites which will support the technical equipment, as the position tracker or the (GPS).
- Many components are made locally.

Unfortunately, achieving the accurate measurements of economy in Russia is totally difficult. Because of many obstacles such as:

- The government are still fixing the goods and services prices.
- Lack of law enforcement.
- Unpredictable political environment.
- Contradictory legislation.
- Widespread corruption.
- No specific Tax or import duty relief to foreign investors.
- Very high Taxes for any foreign components.

Even though, a survey was made by ' Roland Berger' company showed that compatible ventures with foreign companies offer Agents an excellent opportunity to meet international standards.

Because of the positive thinking and the good leadership Russia have a high level of investment, which will lead it to become more efficient in production and will match up today's standards.

According to 'Roland Berger' study, there is a noticeable gap between Russia and the world car market which caused many factors.

As a solution were promoted by the company itself:

- Reduce import duties on components for assembling vehicles and modules.
- It should also tighten its technical standards for products.
- They also should attract more foreign investment, through investment agencies or special economic zones/areas.
- They should provide a good and practical production at low cost.
- Provides systems to produce highly complex high-value products.
- Finally, they must strive to maintain a fair share in Russian marketplace, while radically expanding into the global market.

CONCLUSION

As a summarization we found that Russia faced many obstacles in the automobile industry.

Although these crisis were related to many factors which starts from the dissolution from the 'USSR', the increment in both raw materials and oil ending with the market competitive and challenging. Russia completes its industrialization to add a new revolution in the automobile manufactory, challenging all the global manufactures.

These revolutionary steps will attract foreign investors to invest in their industry.

In addition, Russia is capturing the domestic market by using simple tricks like:

- Reduce the interest rate.
- Establishing the industry lines in home.
- Have their own component manufactory.
- Increase the disposal income.
- Invest the money in all development sides, i. e. they concentrate on the development, decoration, performance and adverts equally.

Furthermore, According to the information of the Ministry of Transportation of the Russian Federation, about 400, 000 firms and organizations are involved in auto transport business. Among these companies 6, 000 are specialized as auto transportation enterprises, including 3, 598 large and medium size enterprises. Among 861 state interacts 360 is in the federal property and 501 in the property of the subjects of RussianFederation.

With this paper presentation, a positive market share of the Russian car industry was born. I may conclude that a potential automobile industry of Russia is leading its way. More of the economic stability can be seen in Russian car industry.

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