



cutting through complexity

Global Automotive Retail Market

*From selling cars on the spot to
centrally managing the retail grid*

September 2013

Part I



Acknowledgements

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Editorial

“If I had asked people what they wanted, they would have said faster horses,” said Henry Ford more than a century ago. Today we know that he was right. In fact, I believe Henry Ford’s paradigm has proven to be true not just for the automobile itself, but for automotive retailing in general. His success demonstrates how a game-changing innovation can never simply be an improvement of an existing idea.

Looking at the current auto retailing sector, it is apparent that the management of dealer networks – as well as the dealers’ business model – has barely changed in decades, and is even being adopted in the so-called emerging markets, without any major modifications. It is perhaps time for automotive decision-makers to ask themselves: are we merely betting on faster horses, rather than taking more radical steps?

Against such a backdrop, this study addresses the most recent developments in the automotive retailing sector and, looking forward, aims to come up with a generic approach to determining an auto retail market’s maturity level.

Our findings suggest that every automotive retail market will go through certain stages in its evolution. The challenge is to know when the tide has turned, as each phase will require a unique set of competencies, solutions and strategies, in order to succeed on the national or global retail grid.



Mathieu Meyer
Global Head of Automotive



I Global automotive retail market outlook

Part I: p. 5 – 14

**Is the term
“emerging market”
still valid?**

**Will the Triad
markets still play
an important role in
2020?**

**Will Western
European countries
be under the top
10 sales markets in
2020?**

**How will vehicle
ownership rates
develop in
emerging countries
until 2020?**

An in-depth analysis of past developments in the global car sales market, and the outlook for all major auto retail markets up to 2020.

- The shift in demand to growth regions will reach unprecedented rates by 2020, with China the undisputed leader.
- Many former emerging markets may well have evolved into ‘establishing’ markets (the stage between emerging and fully established), but due to prevailing disparities they will still be some way from being established by 2020.
- Although the established markets of North America and Western Europe will not be able to compete with the growth rates of establishing markets, they will still be the most important global sales regions after China.
- Even assuming optimistic annual sales growth rates, the established markets of North America and Western Europe are only on a path of slow recovery, compared to the sales peaks they attained in the early 2000s.
- Despite the recent gloomy outlooks for Western Europe, Germany, the UK, France and Italy, they will still be among the top 10 countries for automotive sales in 2020. Japan will also retain its top 10 position, although its sales will fall dramatically over the next 7 years.
- Although the established markets are no longer the centers of growth, three out of four vehicles sold globally in 2020 will still be made by established OEMs from Japan, North America and Western Europe.
- Even far beyond 2020, China, India and Brazil continue to offer tremendous sales potential, as vehicle ownership rates in these countries will still be well behind that of established markets.
- Nearly every fourth car sold in establishing markets will belong to the low-cost/economy segment catering to price-sensitive, middle class customers.

**The global
automotive retail
market will not
become ‘globally
flat’ in the
foreseeable future.**

**In fact, many
important auto retail
markets will still be
in completely
different maturity
stages in 2020.**

**The saturated
markets of the Triad
will still play a major
role in 2020.**



II Automotive retail market maturity model

Part II: p. 15 – 23

How can a markets' maturity level be assessed?

Do all markets go through the same maturity stages?

Should retail strategies be the same in every maturity stage?

Are different people, management styles and key performance indicators (KPIs) needed for each stage?

What does centralization mean in the automotive retail sector?

Details on a generic retail market maturity model, and a brief assessment of the maturity of the most important automotive retail markets up to 2020.

- The maturity of an automotive retail market is influenced by a variety of specific features and macroeconomic conditions, including new car demand, first car versus replacement car demand, used car demand, used:new car sales ratio, car parc density and income levels.
- Every automotive retail market goes through certain maturity stages: firstly an 'easy selling' period, characterized by strong new car demand leading to the development of a large and decentralized retail network structure, followed by a 'hard selling' period, leading to a consolidation and centralization of the retail network, due to decreasing first-car demand.
- Each maturity stage requires a unique retail strategy and distinct set of management competencies and KPIs. These have to be re-evaluated as soon as a retail market shows signs of changing from easy to hard selling mode.
- The notion of centralized automotive retail networks has to be redefined. Centralization should not mean fewer point of sale (PoS) locations, but fewer retail network owners (grid managers) managing the retail grid.

Insight

Future retail scenarios



Our KPMG colleagues from the Consumer Goods & Retail sector have recently conducted a survey that provides very interesting insights into the future of food retailing.



We have translated their findings for automotive retail because we think it is highly likely that many drivers and challenges in the food retailing sector are also relevant to the future of the global automotive retail business.

Every automotive retail market goes through an easy selling and a hard selling period during its passage to maturity. The level of maturity can also differ within a single market (such as China).

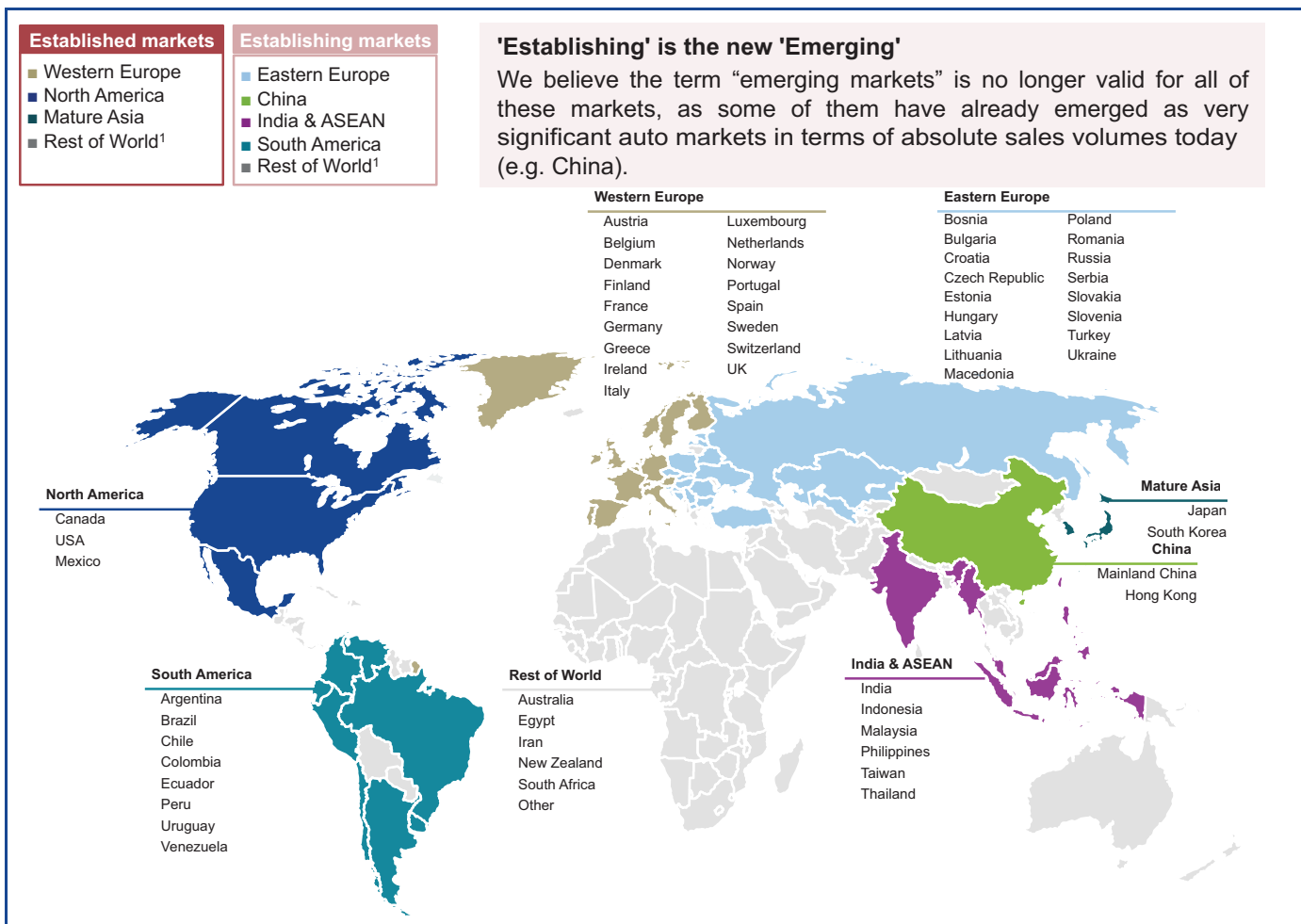
By 2020, none of the establishing markets such as China, India and Brazil will have reached a state of maturity that is comparable to current levels in North America, Western Europe or Japan.

Each period requires a particular retail strategy and a distinct set of management competencies and KPIs to effectively steer the retail grid.



I

Global automotive retail market outlook



Source: KPMG research & analysis. ¹ The market status (established vs. establishing) cannot be clearly defined for all countries categorized under Rest of World (e.g. Australia, New Zealand).

To analyze global market developments, we distinguish eight different regional clusters that cover all relevant automotive markets around the globe, taking account of their geographic proximity, and, more importantly, their different levels of market maturity.

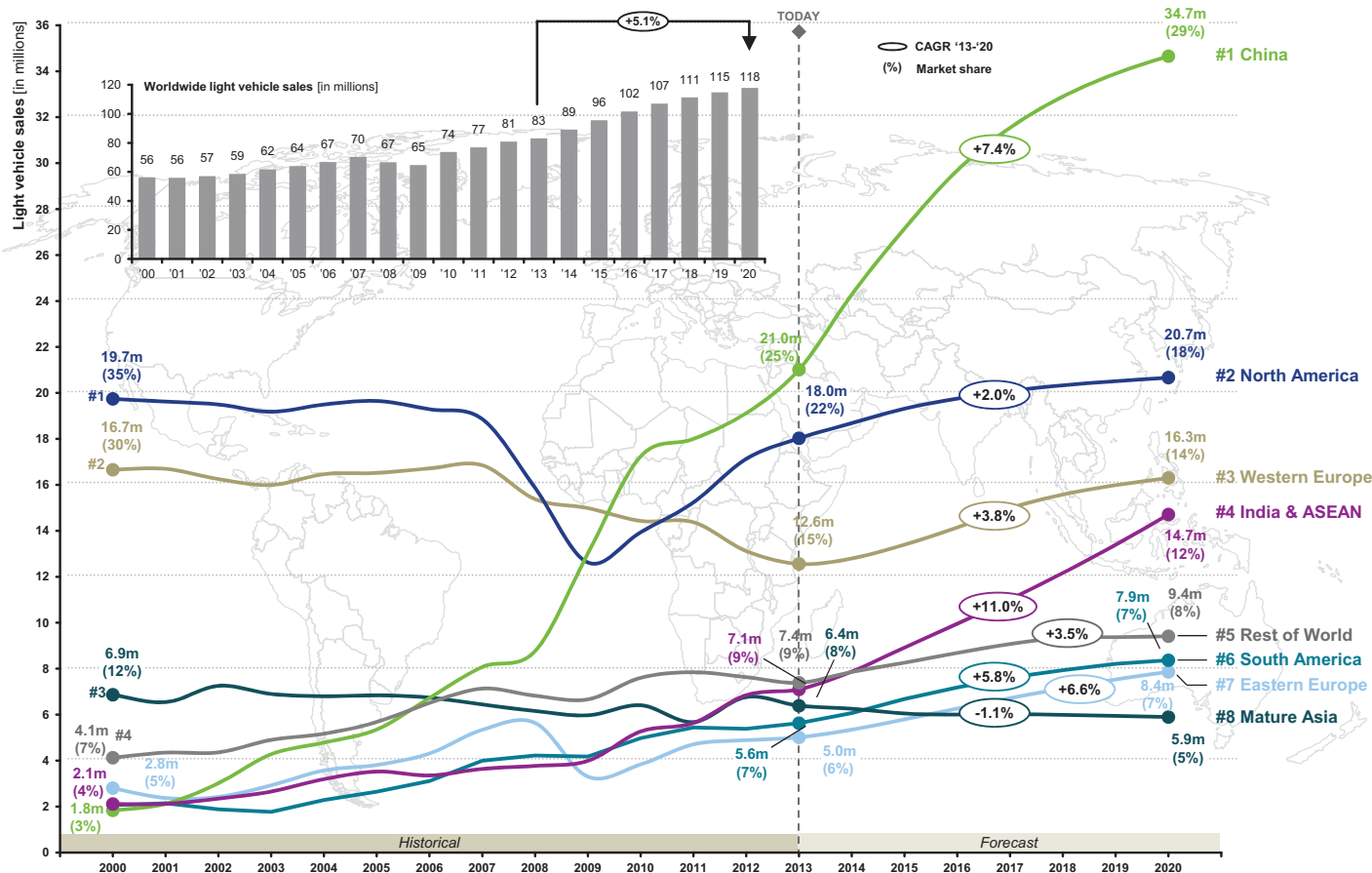
Due to the strong market dynamics and the particular importance of China, we further divide the Asia-Pacific region into three separate clusters.

These clusters acknowledge the large differences between the established auto markets of Japan and Korea (Mature Asia) and the establishing auto markets of China, India and ASEAN (Association of Southeast Asian Nations).

Any country of lower significance that does not fit into the regional clusters – or that cannot be analyzed due to a lack of detailed data – is categorized under 'rest of world.'



The demand shift to China will reach unprecedented levels by 2020



Source: KPMG research & analysis, LMC. Figures include: Passenger cars, light commercial vehicles (less than 6 tons) and vehicles defined as light trucks in North America.

Key takeaways

In 2020, China will be the major automotive market by some distance, responsible for nearly one-third of annual new vehicle sales worldwide (34.7 million).

North America will be the second-largest sales region, with nearly 20 percent of annual global sales volume (20.7 million).

Western Europe will retain third place until 2020 (ahead of India and ASEAN), although annual sales will not reach the peaks experienced at the turn of the millennium.

Up to 2020, India and ASEAN will enjoy the strongest percentage sales growth, with a compound annual growth rate (CAGR) of 11 percent plus.

Sales in Mature Asia will decline up to 2020, reflecting the future prospects of mature, densely populated auto markets.

With an annual sales volume of 1.8 million vehicles in 2020, the largest proportion of the rest of world sales will come from Iran.

Global automotive retail market outlook

Global sales ranking | top 10 automotive markets



China, India & Brazil will have made the greatest leaps forward by the end of this decade

↓Rank	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	t
#1	USA	USA	USA	USA	USA	USA	USA	USA	USA	USA	USA	USA	USA	CN	CN	CN	CN	CN	CN	CN	CN	CN
#2	JPN	JPN	JPN	JPN	JPN	JPN	CN	CN	CN	USA	USA	USA	USA	USA	USA	USA	USA	USA	USA	USA	USA	USA
#3	DEU	DEU	DEU	CN	CN	CN	JPN	JPN	JPN	JPN	JPN	JPN	JPN	JPN	JPN	IND	IND	IND	IND	IND	IND	IND
#4	ITA	GBR	CN	DEU	DEU	DEU	DEU	DEU	DEU	DEU	BRA	BRA	BRA	BRA	IND	JPN	BRA	BRA	BRA	BRA	BRA	BRA
#5	FRA	FRA	GBR	GBR	GBR	GBR	GBR	GBR	RUS	BRA	DEU	DEU	DEU	IND	BRA	BRA	JPN	JPN	JPN	JPN	JPN	JPN
#6	GBR	ITA	ITA	ITA	ITA	FRA	ITA	ITA	BRA	FRA	IND	IND	IND	DEU	DEU	RUS	RUS	RUS	RUS	RUS	RUS	RUS
#7	CN	CN	FRA	FRA	FRA	ITA	FRA	RUS	FRA	ITA	FRA	RUS	RUS	RUS	RUS	DEU	DEU	DEU	DEU	DEU	DEU	DEU
#8	ESP	ESP	CAN	ESP	ESP	ESP	RUS	FRA	GBR	GBR	GBR	FRA	GBR	GBR	GBR	GBR	GBR	GBR	GBR	GBR	GBR	GBR
#9	CAN	CAN	ESP	CAN	CAN	BRA	ESP	BRA	ITA	IND	ITA	GBR	FRA	FRA	FRA	FRA	FRA	FRA	FRA	FRA	FRA	FRA
#10	BRA	BRA	KOR	BRA	BRA	CAN	BRA	ESP	IND	RUS	RUS	ITA	CAN	CAN	CAN	CAN	CAN	ITA	ITA	ITA	ITA	ITA
[in million units]													Forecast									

Source: KPMG research & analysis.
Please note: ranking is based on total annual light vehicle sales volume by country.

Key takeaways

The BRIC markets will dominate the global car market in 2020, occupying four of the first six places.

Despite the strength of the BRICs, the US will be an unrivalled second to China, although only enjoying half the new car sales of the People's Republic.

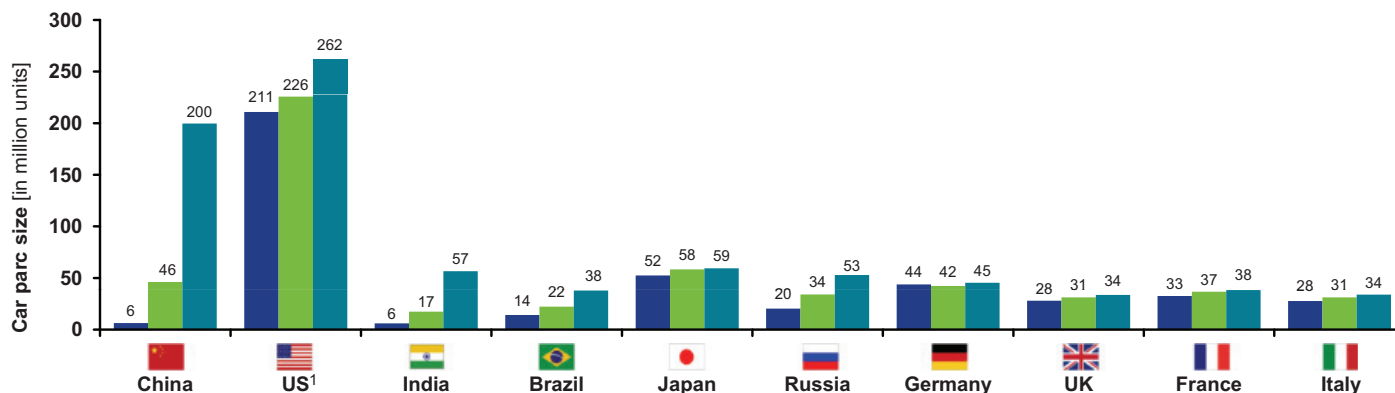
The formerly highly ranked European countries will further decline in significance, unable to compete with the strong growth rates within establishing auto markets.

Russia, although commercially unpredictable, is projected to finally exceed every other Western European market in terms of sales volume by the middle of this decade.

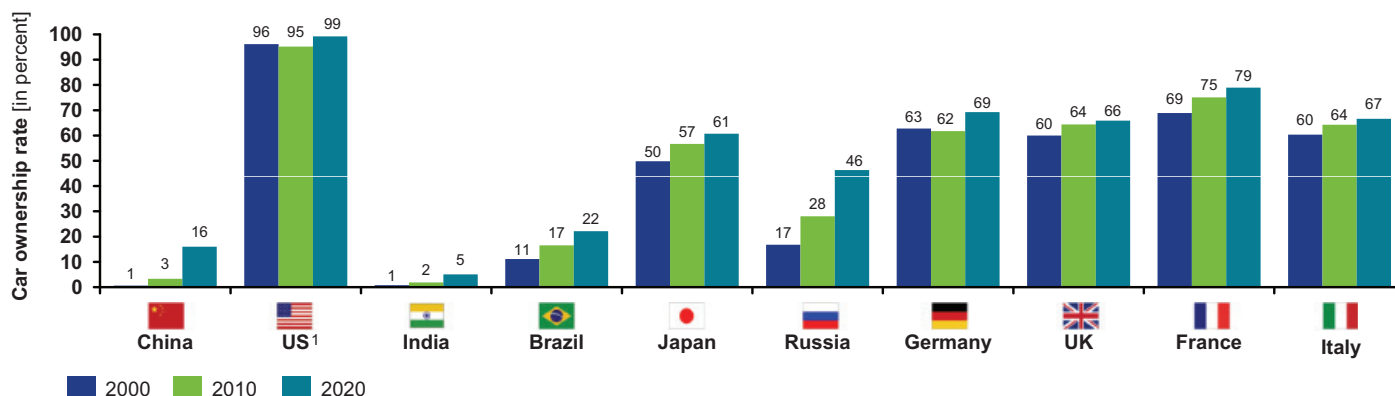
Japan, which was the world's second largest auto market behind the US in 2000, has since experienced a sharp drop and will decline further up until 2020.



The US and China will have by far the largest passenger car parc size in 2020



Even far beyond 2020 China, India and Brazil could offer tremendous sales potential



Source: KPMG research & analysis, LMC, UN.

Please note: light commercial vehicles (less than 6 tons) generally excluded.

¹ US car parc includes vehicles defined as light trucks in North America. Car ownership rate = Number of cars owned per 100 of driving population (population aged between 15 and 79 years).

Key takeaways

Absolute car parc size and car density are very good indicators of a market's overall growth potential and maturity level. (For further details see 'What makes a retail market mature?')

Thanks to fast-growing new car sales, China's total car parc size will more than triple by the end of this decade, almost reaching the US level of the early 2000s.

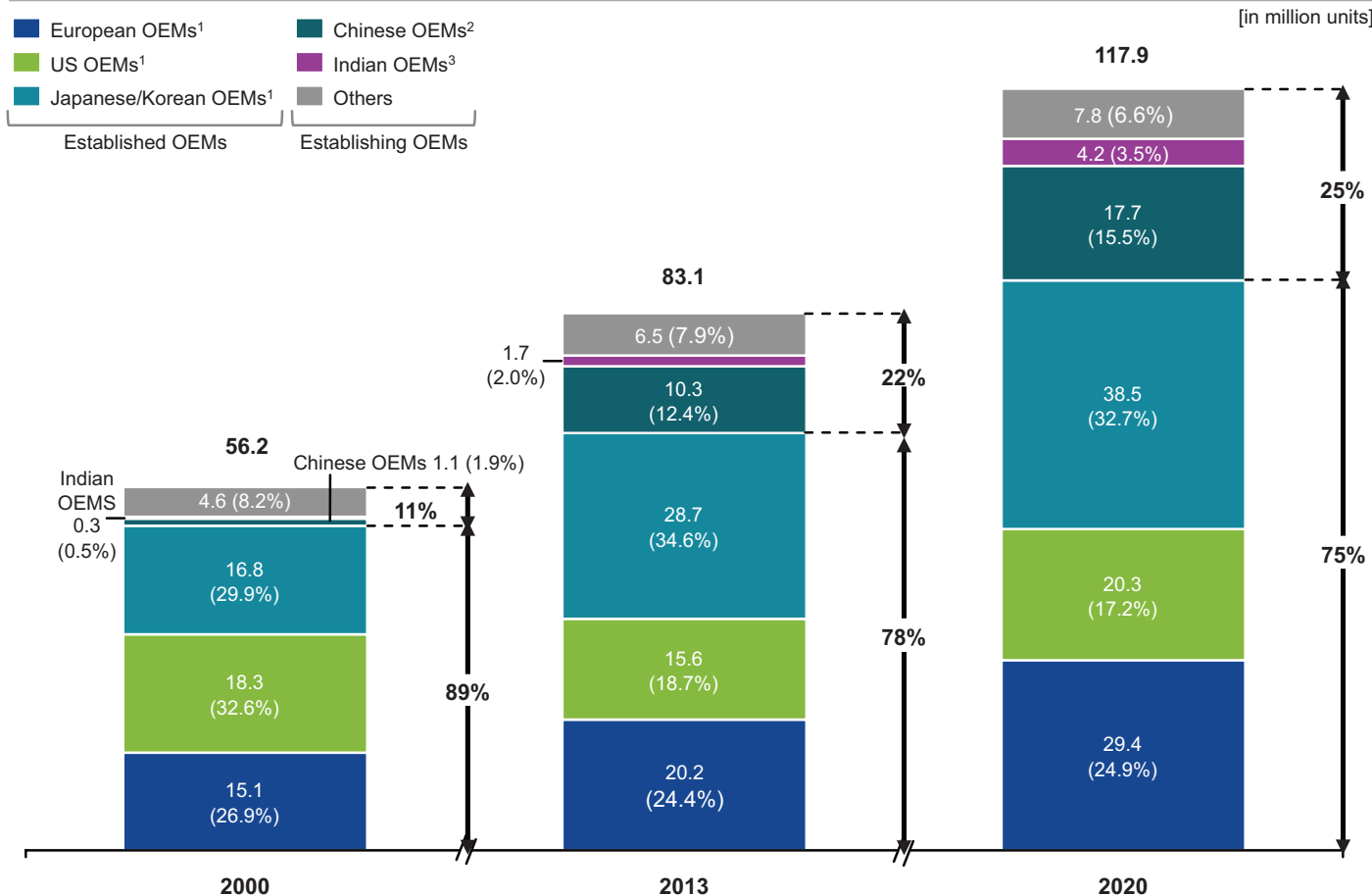
This number becomes less significant in light of China's car density. By 2020 there will be 200 million vehicles – less than one for every five people. In the US on the other hand, a similar number of vehicles in 2000 (211 million) translated into approximately one car for every driver.

This leaves tremendous growth potential for incremental new car sales in China beyond 2020.

Western European countries will all have an ownership rate of above 60 percent by 2020, with only minor growth from 2013. These figures are more influenced by population decrease than by a rise in total car parc size.



Three out of four vehicles sold in 2020 will still originate from established OEMs



Key takeaways

At the turn of the millennium, almost 90 percent of all cars sold worldwide were made by established OEMs from North America, Western Europe and Japan.

Today, almost 80 percent of all car sales still originate from established OEMs, but the balance of power has changed considerably.

Every third vehicle sold now comes from a Japanese/Korean OEM, while back in 2000 the US 'big three' were responsible for the major chunk of global car sales.

The global market share of European OEMs has been around 25 percent ever since the 2000s, and will most likely remain at this level up to 2020.

Chinese and Indian sales groups have only slowly taken over market share from established OEMs. By 2020, around every fourth car sold is likely to originate from an establishing OEM. Chinese OEMs will make up the greatest proportion, taking a global market share of around 15 percent.

Source: KPMG research & analysis, LMC. ¹ For trans-regional sales groups (Fiat-Chrysler and Renault-Nissan) sales are split by brand origin. ² Includes Volvo (=Geely) sales in 2013 and 2020. ³ Includes JLR (=Tata Motors) sales in 2013 and 2020. Please note: Sales volumes originating from trans-national joint ventures are assigned to established OEM.



Sales by OEM origin | Established markets

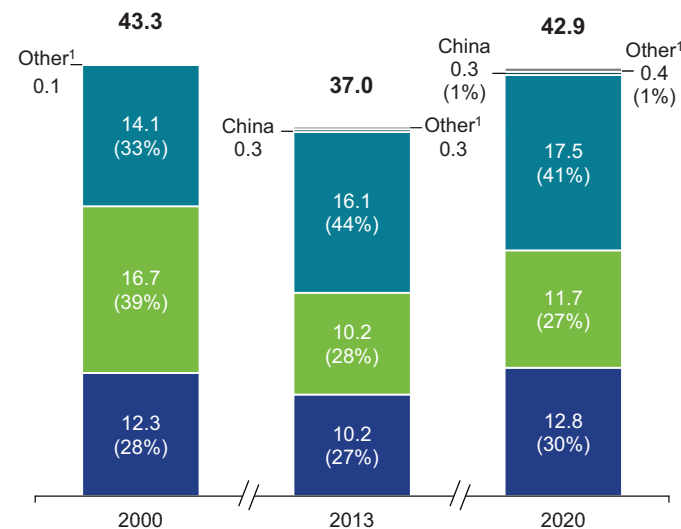
European OEMs¹ Japanese/Korean OEMs¹ Indian OEMs³
US OEMs¹ Chinese OEMs² Others

¹ For trans-regional sales groups (Fiat-Chrysler and Renault-Nissan) sales are split by brand origin.

² Includes Volvo sales in 2013 and 2020.

³ Includes JLR sales in 2013 and 2020.

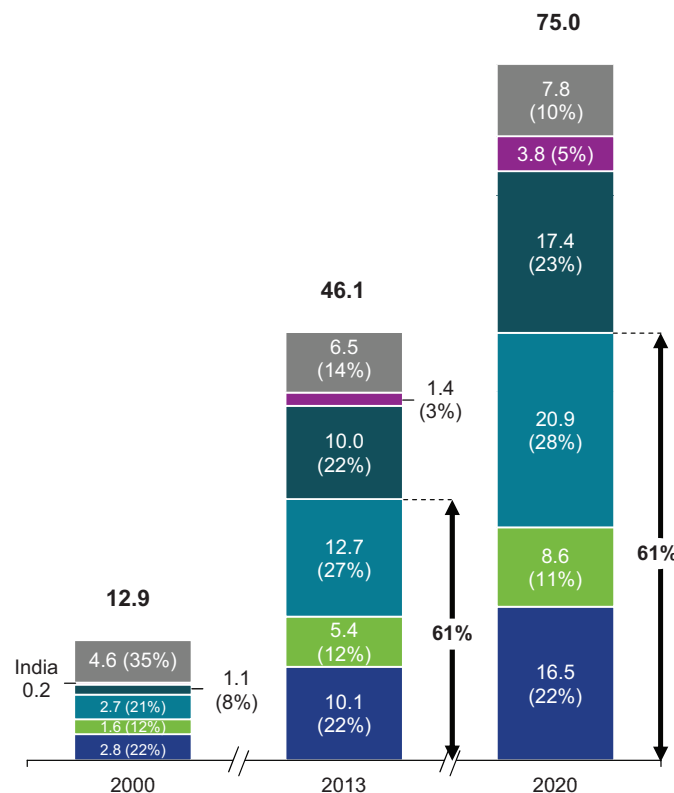
Please note: Sales volumes originating from trans-national joint ventures are assigned to established OEM.



Established markets = North America, Western Europe, Mature Asia.
Source: KPMG research & analysis, LMC. ¹ Other includes Indian OEMs.

Sales by OEM origin | Establishing markets

[in million units]



Establishing markets = China, India and ASEAN, South America, Eastern Europe, RoW.
Source: KPMG research & analysis, LMC.

Key takeaways

By taking a separate look at established and establishing market car sales, it is possible to gain a different perspective on the trends in market share among the major global auto sales groups.

Despite the acquisitions of Jaguar Land Rover (JLR) – by India's Tata Motors) and Volvo (by the Chinese Geely Group), establishing OEMs will still play a minor role in established markets, achieving less than 2 percent market share by 2020.

Although suffering a downturn in their home markets, mature Asian OEMs remain strong global players, occupying the highest market shares in both the established and establishing markets.

In the establishing markets, establishing OEMs will fail to take over any market share from established competitors between 2013 and 2020.

KPMG's view on global vehicle segment definitions

The traditional, size-based definition of vehicle segments is insufficient

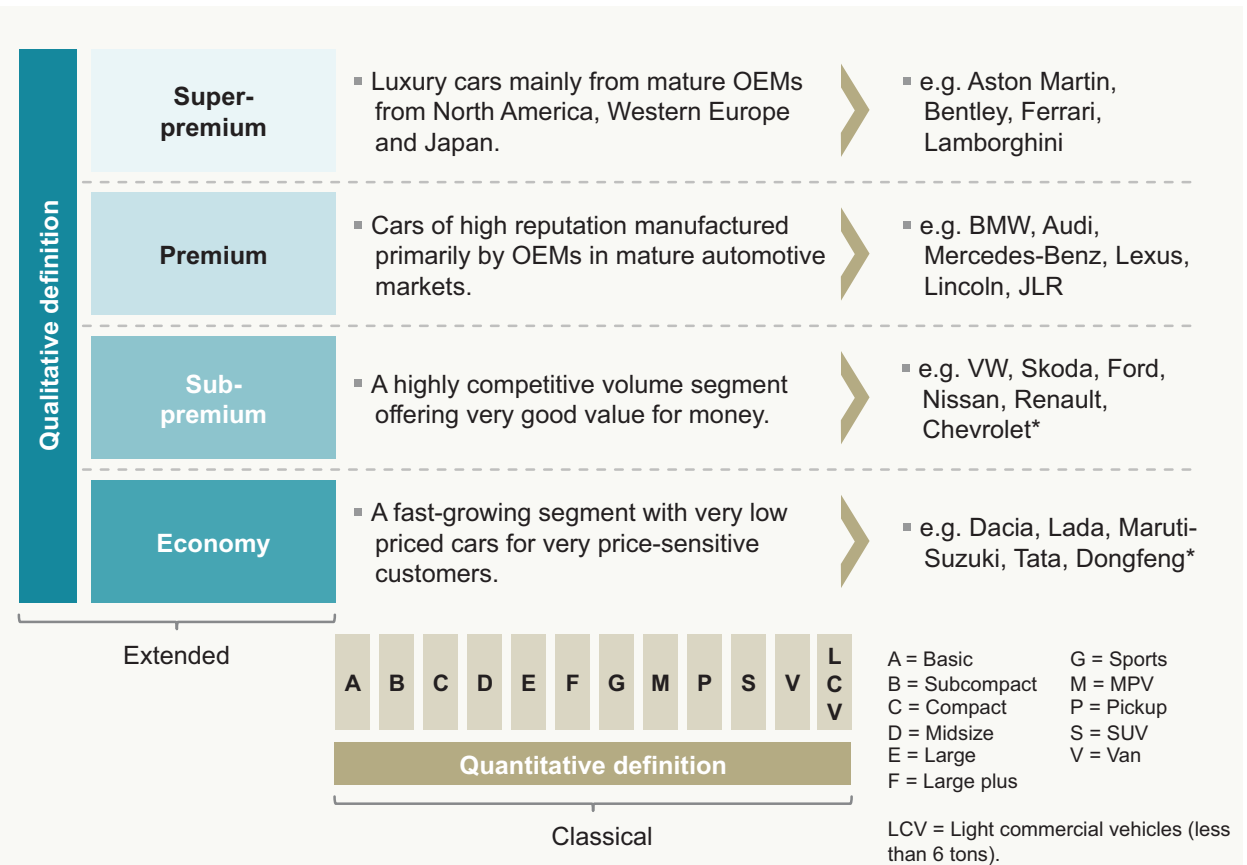
The market analyses on the previous pages show two important trends for the global automotive retail sector. While establishing market customers will make up by far the largest proportion of all car buyers worldwide in 2020, three out of four vehicles sold in 2020 will still originate from established OEMs based in North America, Western Europe or Mature Asia.

OEMs with global operations will have to increasingly manage different quality levels and pricing expectations for their products in different markets, which will impact branding and retail strategies.

To gain a better insight into the changing global quality and pricing differences, we define four qualitative segments (see the analysis on the 'Sales by segment' page) that range from economy to super-premium. These definitions augment accepted quantitative dimensions such as vehicle size/length and usage.



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Member of KPMG's Automotive Think Tank

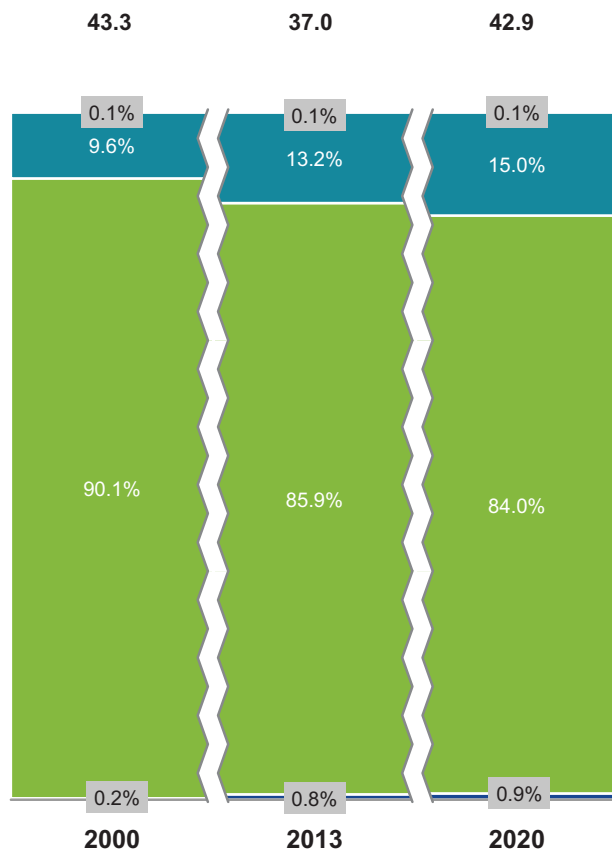


* Some car brands cater to more than one qualitative segment. Source: KPMG research & analysis, LMC.



Sales by segment | Established markets

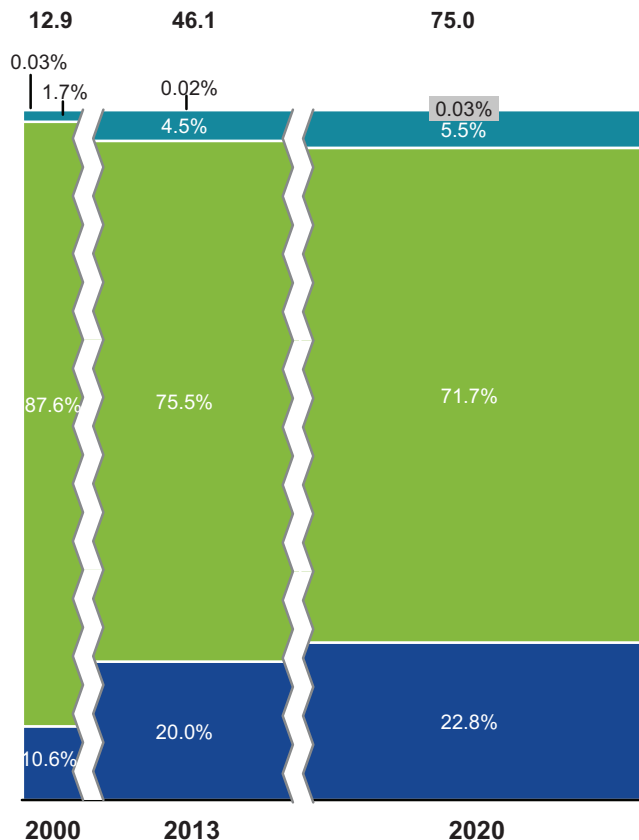
■ Economy ■ Sub-Premium ■ Premium ■ Super-Premium



Established markets = North America, Western Europe, Mature Asia.
Source: KPMG research & analysis, LMC.

Sales by segment | Establishing markets

[in million units]



Establishing markets = China, India and ASEAN, South America, Eastern Europe, RoW.
Source: KPMG research & analysis, LMC.

Key takeaways

In 2020, the vast majority of vehicles sold in established and establishing markets will belong to the so-called sub-premium segment.

In the established markets, the premium segment will continue to grow, reaching 15 percent market share by 2020, equivalent to a total annual sales volume of 6.4 million vehicles.

In contrast, premium vehicles will only make up 5.5 percent of annual sales in establishing markets by this date. This equates to an annual volume of 4.1 million vehicles – well below the figure for the established markets of North America, Western Europe and Mature Asia.

The economy segment, on the other hand, will not play a significant role in the established markets until 2020. In establishing markets, however, almost one in every four cars will be an economy model, catering largely to price-sensitive middle class customers.



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