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Planning Beyond a Billion

It seems an impossible number to imagine, but it will soon be reality. A billion. The total world population is more than six billion. The number of Internet users across the globe is over one billion¹. And, by 2011, there will be *more than one billion vehicles in operation worldwide*.

While all regions of the globe will experience some growth in the level of vehicles on their roadways, the degree to which they are increasing varies as noted in Figure 1 below. For example, Japan is only predicted to experience compound annual growth of less than one percent between now and 2011, while the total vehicle population for the balance of Asia (without Japan) is estimated to grow at a rate of just over eight percent annually. With the regional disparity in growth rates, this creates a shift in the overall share of the global volumes. As seen in Figure 2 (on the next page), the emerging markets of Asia (less Japan), the Middle East and Eastern Europe should begin to offer more opportunity in the global automotive industry.

With the growth of the total vehicle population, specific implications begin to surface. Consider decisions that influence dealership and brand representation, capacity planning and the procurement of available local resources to address a changing vehicle population. Such infrastructure factors need to be considered across all segments of the auto industry, including sales, service and parts distribution. These areas impact not only automotive manufacturers but the independent aftermarket parts and service sector as well.

BRAND REPRESENTATION

A key driver in the growth of the vehicle population will be new purchase activity (in addition to

the trend of older vehicles having a longer lifespan). One of the obvious challenges automotive manufacturers face when entering or expanding into an emerging market is the ability to forecast demand to identify appropriate levels and placement of retail locations. Prevalent in other mature markets, the use of comprehensive market studies to evaluate both customer acceptance and market demand of an automaker's product line should be a key tool to optimize the structure of a retail network.

The topic of market representation also applies to independent aftersales facilities. The preferences of local customers should be considered when planning for an appropriate presence level. For example, is there a higher concentration of "Do-It-Yourself" (DIY) or "Do-It-For-Me" (DIFM) customers²? Knowing this provides insight into the volume of service or parts facilities that are needed in a local market. For example, in a strong DIY market, more retail parts facilities would be expected, whereas, in a strong DIFM market, building more service bays and wholesale parts distribution centers may be a higher priority.

CAPACITY PLANNING

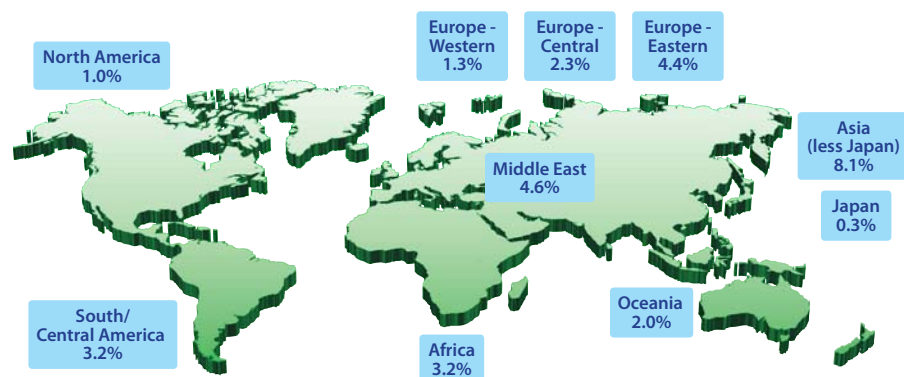
As more vehicles are purchased, a capacity assessment of automotive dealerships and aftermarket service facilities will need to occur to see if customer needs will be adequately served. Specifically, how much additional service capacity (stalls/bays) are these markets going to need? For example, some U.S.-based operations recommend one bay per 1,000 vehicles in operation within a dealer area. If the same held true for the Eastern European market, it would indicate a need for nearly 74,000 service bays by 2011 as compared to a recommended 65,000 currently.

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Figure 1
Global Compound
Annual Growth Rates for
Vehicles in Operation
(2008-2011)



¹ www.internetworldstats.com

² *Do-It-Yourself* – Customers who prefer to maintain and/or service their own vehicles.
Do-It-For-Me – Customers who prefer to have vehicle maintenance and/or service performed by trained professionals.

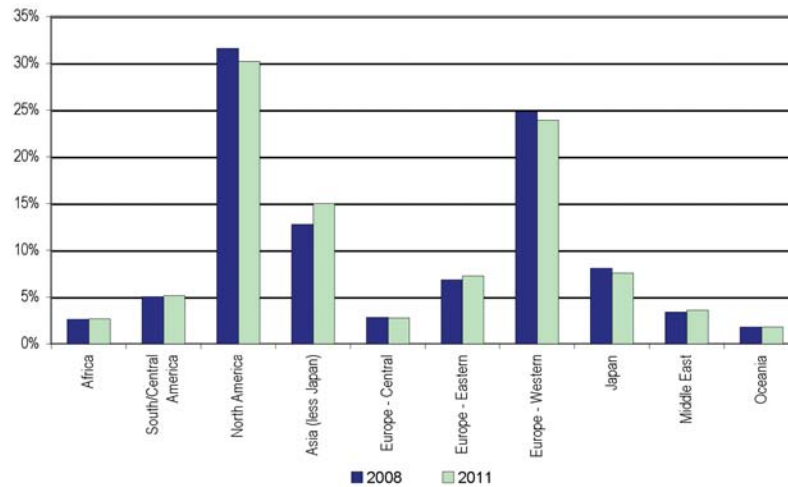


Figure 2
Regional Share of
Worldwide Vehicle
Population

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Additionally, if the U.S. benchmark ratio of 1.5 stalls per technician were also applied to this market, a total of approximately 50,000 trained technicians would need to be in place to support the Eastern European marketplace. Is there an adequate number of skilled technicians given the specialized diagnostic tools and skills needed to maintain the growing number of both passenger and commercial vehicles? If not, are there appropriate recruiting and training plans in place to address the issue? Market planners need to think about whether this staffing model is feasible.

One thing is certain, one billion vehicles worldwide means that consumers will be facing more traffic on the road. In cities like Beijing, China, roughly 30,000 new vehicles are registered each month. Well-prepared automotive manufacturers, suppliers and aftermarket companies will be positioned to reap the benefits of additional demand – and hopefully the profit that comes with it. Achieving this is a long-term process. Using reliable market signals that validate regional automotive growth is only the first step in this strategic process.

The capacity of the parts distribution network in each of these emerging markets will also need to be evaluated. Are there enough distribution centers established in each market to handle the growing need for varying component parts? Will logistics and transportation be easily realized? Are there plans underway to build additional capacity into the markets that are currently underserved?

FUTURE CONSIDERATIONS

Fluctuations in vehicle mass tend to vary with changes in the general population. Inherent is the need to thoroughly understand growing markets if they present automotive-related opportunities.

From a planning view, there are many factors to consider when creating strategies to either initially enter or maximize existing presence in an emerging automotive market. Beyond the usual business plan discussions surrounding vehicle sales, service and parts, it is also important to keep in mind the cultural diversity that may dictate how business is conducted in different countries. This factor alone can make or break a growth or market entry strategy if cultural norms are misunderstood.