

# BEYOND BRIC

WINNING THE RISING AUTO MARKETS



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# EXECUTIVE SUMMARY

**T**HE BEYOND BRIC MARKETS—THE rising automotive markets emerging behind the quartet of Brazil, India, Russia, and China—offer the last great growth opportunity in a world in which established markets are largely characterized by stagnation or low growth and the key stakes have already been distributed in the BRIC markets.

In this report, The Boston Consulting Group presents the challenges and opportunities automotive manufacturers will face in the Beyond BRIC markets and explores the key success factors along the value chain to achieve sustainable success. It is the fourth in the series *Winning the Localization Game*. (The others are *Winning the BRIC Truck Battle*; *Winning the BRIC Auto Markets: Achieving Deep Localization in Brazil, Russia, India, and China*; and *Winning the Localization Game: How Multinational Automotive OEMs and Suppliers Are Realizing the Strategic Potential of China and India*.)

**The Beyond BRIC markets represent the “last frontier” for automotive industry growth.**

- The annual growth rate in these markets through 2020 will be about 6 percent—four times higher than that expected in the established Triad markets. (This report defines the Triad markets as the U.S. and Canada, Europe, Japan, and Australia and New Zealand.)
- These markets will account for one-fifth of global new-vehicle sales through 2020.

**The subscale size of many Beyond BRIC markets makes a stringent regional approach necessary. Four regional clusters should be on the growth list of every OEM and supplier.**

- *The ASEAN Nations.* This cluster includes many of the members of the Association of Southeast Asian Nations such as Indonesia,

Malaysia, and Thailand. It is projected to have annual new-vehicle sales of 4.6 million by 2020, making it larger than the projected Russian market of 4.4 million.

- *The Emerging Mideast.* This cluster—which includes Iran, Saudi Arabia, and Turkey—will boast up to 5.8 million new-vehicle sales in 2020, overtaking Brazil’s projected 5.2 million.
- *The Andeans.* This cluster—which includes Argentina, Chile, and Colombia—has 2.9 million new-vehicle sales projected for 2020, making it nearly the size of the German market (at 3.6 million).
- *The North African Belt.* This cluster—which includes Algeria, Egypt, and Morocco—is projected to have 1.2 million new-vehicle sales by 2020. Although it will remain comparatively small, this region is a potential site for promising localization by OEMs—and the gate to Africa.

**Succeeding in the Beyond BRIC markets is far more than winning a “simple game.”**

- *OEMs must identify the right product portfolios.* Catering to diverse customer needs is essential since a standardized approach will fail. For example, OEMs will need to serve the demand for small cars in Turkey (The Emerging Mideast), the demand for pickup trucks in Thailand (The ASEAN Nations), and consumer preferences for SUVs and sedans in Chile (The Andeans).
- *Supply chain and production operations must span market boundaries.* Finding ways to realize cost advantages by working with a local supplier base while also addressing trade agreements through an enhanced network of cross-market production is both a challenge and a key competitive advantage across all the Beyond BRIC regions.
- *OEMs must drive excellence throughout their dealer networks.* Key success factors differ across the four strategic clusters. For example, while local partnerships are the key to securing attractive dealer locations and competitive financing conditions in the ASEAN Nations, the challenge in the Emerging Mideast is retaining well-trained sales staff.

**Few OEMs have yet managed to dominate these last-frontier markets.**

- Although many OEMs have been successful in one regional cluster, very few have achieved a dominant position across all or even the majority of the clusters.
- Learning from these Beyond BRIC champions is vital to ensuring the long-term development of the industry.

# THE OPPORTUNITIES BEYOND BRIC

**G**EOPGRAPHIC DIVERSIFICATION HAS never mattered more to the automotive industry than it does today. European manufacturers are beset by declining business in their home markets. American OEMs have seen how hard an economic downturn can hit the domestic market, and Japanese manufacturers have become accustomed to stagnating demand at home. For all the players, geographic diversification is essential in order to balance local economic storms.

## The Strategic Importance of Moving Beyond BRIC

The BRIC markets of Brazil, Russia, India, and China have generated substantial growth opportunities in the last decade and will certainly be vitally important over the coming decade. But we believe that concentrating on the BRIC markets alone will be insufficient to ensure longer-term success.

BCG's analysis concludes that automakers wishing to be top global players must also look "beyond BRIC" for a number of reasons. (For more about the methodology used in the analysis, see the Appendix to this report.)

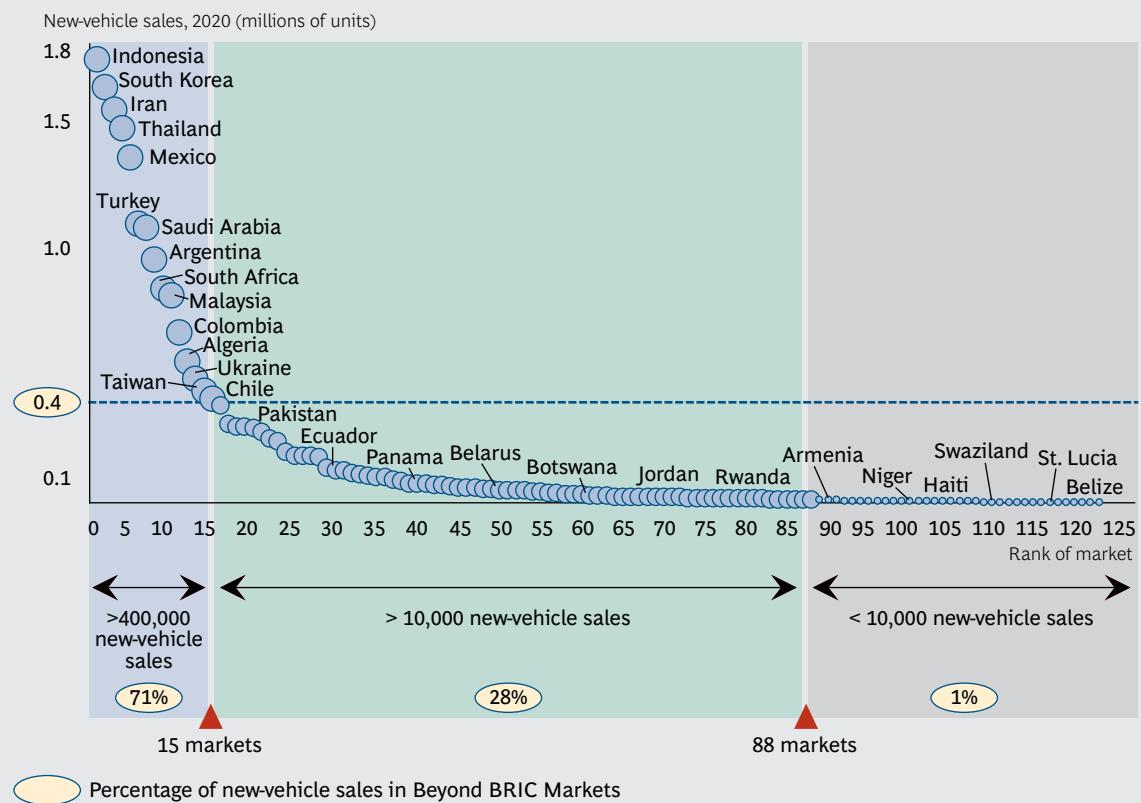
- More than 40 percent of the world's population lives in the Beyond BRIC markets.

- These markets already account for, and will command at least through 2020, one-fifth of global new-vehicle sales.
- The annual growth rate in these markets through 2020 will be approximately 6 percent—four times higher than that in the Triad markets. (This report defines the Triad markets as the U.S. and Canada, Europe, Japan, and Australia and New Zealand.) These newly emerging markets already offer significant opportunities for localizing operations.

Of the initial 123 Beyond BRIC markets BCG analyzed, as Exhibit 1 illustrates, 88 auto markets are projected to have more than 10,000 new-vehicle sales by 2020. They vary dramatically in size. (For more about Beyond BRIC markets, see the sidebar "The Heterogeneous World of Beyond BRIC Auto Markets.")

- Each of the 15 largest Beyond BRIC auto markets is projected to generate annual new-vehicle sales in excess of 400,000 vehicles by 2020. This top of the curve will represent 71 percent of new-vehicle sales in the Beyond BRIC markets.
- The remaining 73 Beyond BRIC auto markets will achieve annual new-vehicle sales between 10,000 and 400,000 by 2020; they will represent 28 percent of the Beyond BRIC volume.

## EXHIBIT 1 | In 2020, 88 Beyond BRIC Auto Markets Will Have New-Vehicle Sales Above 10,000



Sources: IHS Automotive, January 2013; Polk; BCG growth model.

## THE HETEROGENEOUS WORLD OF BEYOND BRIC AUTO MARKETS

The tier 1 markets in the strategic clusters offer significant potential—in significantly different ways.

**The Market Leader.** Indonesia, one of the ASEAN Nations, will be the biggest Beyond BRIC market by 2020, with 1.7 million new-vehicle sales.

**The Question Mark.** Iran—a country in the Emerging Mideast cluster—has traditionally been an important regional car market, and it has the theoretical potential to attain an impressive 1.5 million in new-vehicle sales by 2020, which would make it the third-largest Beyond BRIC market. Yet, U.S. embargoes and current political instability raise questions about whether the market can realize these projections.

**The Sites of Dynamic Growth.** Colombia, a market in the Andeans cluster, will see its new-vehicle sales more than double to about 670,000 by 2020. Similar growth dynamics are expected in Saudi Arabia. The auto market in this Emerging Mideast nation will grow an average of 7 percent annually and almost double its current sales of 650,000 to 1.1 million in 2020.

**The Car Producers.** Thailand, Iran, Indonesia, and Turkey are already the most important manufacturing hubs in the strategic clusters. Thailand produces 2.4 million cars, and the three other countries produce about 1 million each. Together, they are expected to increase their combined output from today's 5.5 million to nearly 8 million in 2020.

## Four Strategic Clusters

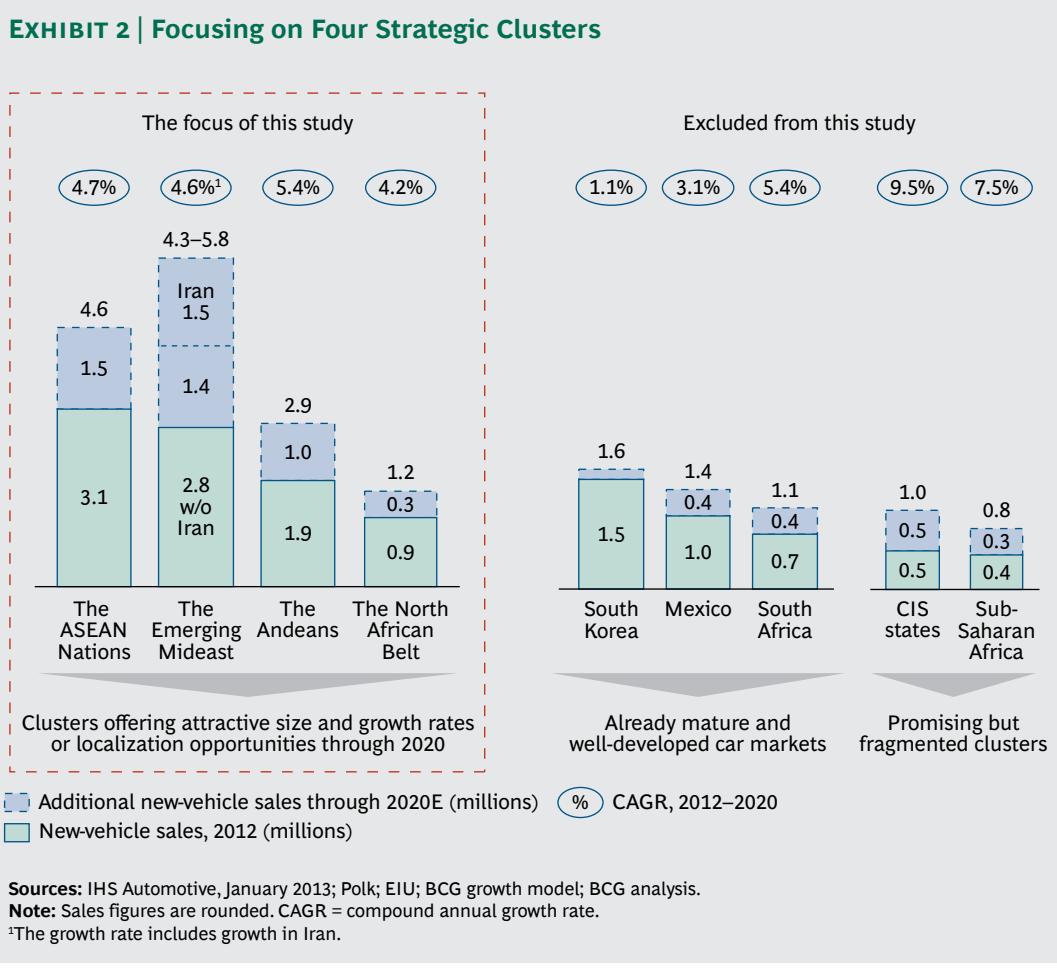
Companies seeking diversification opportunities beyond BRIC must think in terms of clusters rather than countries. None of the 88 Beyond BRIC auto markets can generate sales volumes comparable to that of a single BRIC market. Even Indonesia, which will lead the emerging markets with 1.7 million new-vehicle sales by 2020, will have less than half the projected sales volume of the smallest BRIC market, Russia (at 4.4 million vehicles). All other Beyond BRIC markets are even smaller and less critical.

When the 88 Beyond BRIC auto markets are grouped by their sales volumes, growth dynamics, demand patterns, logistics streams, and regulatory frameworks, nine regional clusters emerge. To help companies focus on the most strategic priorities, this report details the four most promising and most dynamic regional clusters. (See Exhibit 2.) Such clustering will allow companies to establish competitive sourcing and production

networks as well the best approach to sales and services.

- *The ASEAN Nations.* These are the tier 1 markets of Indonesia, Malaysia, and Thailand, and seven tier 2 markets including Philippines, Singapore, and Vietnam.
- *The Emerging Mideast.* This cluster consists of the tier 1 markets of Iran, Saudi Arabia, and Turkey, and 17 tier 2 markets including Iraq, Qatar, Syria, and the United Arab Emirates.
- *The Andeans.* These are the tier 1 markets of Argentina, Chile, Colombia, and eight tier 2 markets including Bolivia, Ecuador, Peru, Uruguay, and Venezuela.
- *The North African Belt.* This cluster consists of the tier 1 markets of Algeria, Egypt, and Morocco, and the tier 2 markets of Libya and Tunisia.

**EXHIBIT 2 | Focusing on Four Strategic Clusters**



BCG excluded the remaining clusters from further analysis because they are mature, developed markets or offer limited potential.

- Mexico has been excluded because its geographic proximity to the U.S. links it closely to the U.S. auto market.
- South Korea and South Africa have been excluded because of their relatively mature automotive-market structure.
- The CIS states and Sub-Saharan Africa have been excluded as highly fragmented regions that will have new-vehicle sales at or below 1 million in 2020. Nigeria, for example, is the only market in Sub-Saharan Africa that will reach 200,000 in new-vehicle sales by 2020.

## Regional Snapshots: Capturing the Clusters

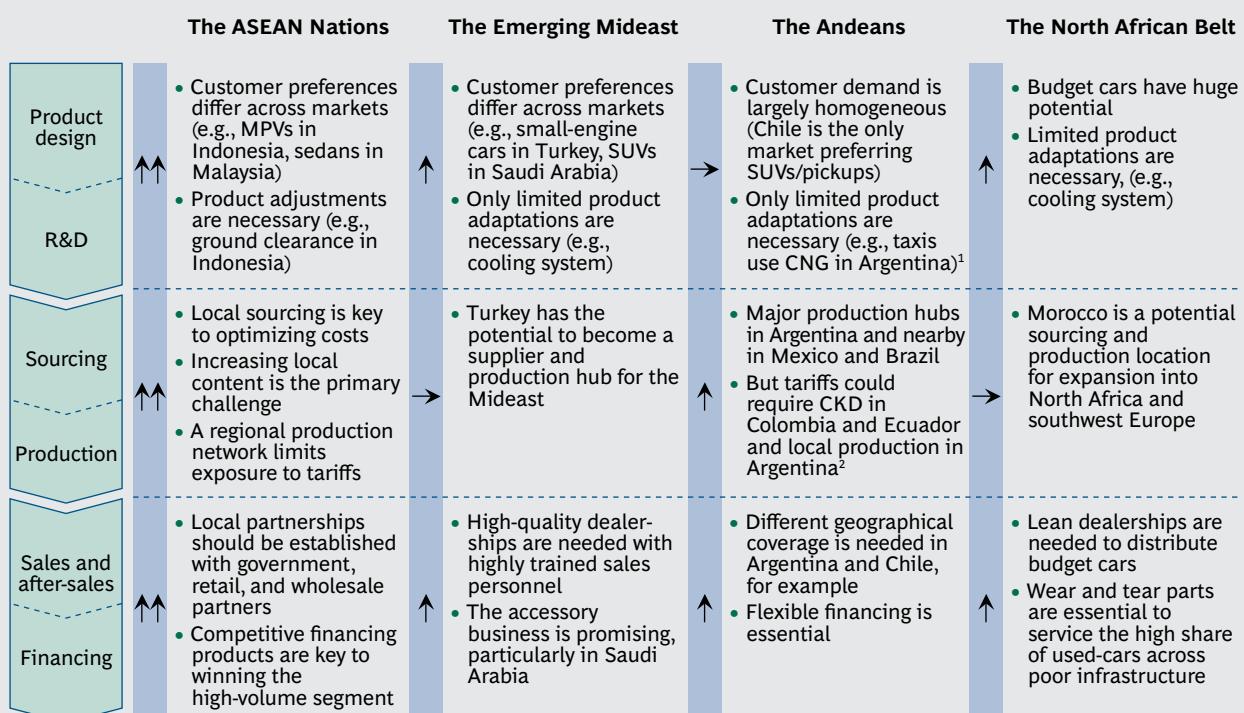
Each of the four strategic clusters differs significantly in market size and development

trends, in local capabilities and localization opportunities, as well as in customer preferences. We distilled the key areas of focus for each of these regional clusters and assessed their individual importance. (See Exhibit 3.) Key findings for each of the strategic clusters are spotlighted in the snapshots below.

**The ASEAN Nations.** This cluster, which is dominated by Japanese OEMs with highly optimized operations, calls for a dedicated strategy for each step of the value chain.

- *Product Design and R&D.* Customer preferences are highly specific and differ across the ASEAN Nations. Some require market-specific adaptations such as higher ground clearance for multipurpose vehicles (MPVs) in Indonesia, a clear focus on affordable sedans in Malaysia, or a strong demand for pickup trucks in Thailand.
- *Sourcing and Production.* Sourcing from a truly local supplier base can generate

### EXHIBIT 3 | Key Success Factors for the Four Strategic Clusters



↑↑ Highly relevant for regional success

↑ Relevant for regional success

→ Less relevant for regional success

Source: BCG analysis.

<sup>1</sup>Compressed natural gas.

<sup>2</sup>Complete knockdown, local assembly.

savings of 20 to 30 percent compared with sourcing from locally based multinational suppliers. Tariffs and localization incentives also make regional production networks necessary. Examples include the free trade agreement between Thailand and Indonesia on cars imported from the ASEAN Nations, the potential 40 percent savings that result from Malaysia's incentives for local production, and Thailand's holiday from corporate tax for the first eight years of local production.

- *Sales, After-Sales, and Financing.* Strong local partnerships with government, wholesale, and retail partners are essential to gain access to, for instance, competitive financing products with reasonable interest rates or the best locations for dealerships.

**The Emerging Mideast.** Within this cluster of related markets, a one-size-fits-all strategy will not lead to successful growth. The main markets must be addressed individually.

- *Product Design and R&D.* Major car adaptations for individual markets are generally unnecessary in this cluster. Yet selecting the right models from existing OEM portfolios is essential to meet the specific demands of the individual markets. The Turkish, for example, prefer small commercial cars with engines that are smaller than 1.6 liters, and customers in the United Arab Emirates demand more upscale pickup trucks and limousines.
- *Sourcing and Production.* While local production in Turkey was still limited to fewer than 1 million vehicles in 2012, the country has real potential for further localization. Manufacturing clusters around Istanbul and Bursa and a supplier base of more than 4,000 components manufacturers could make the country a key manufacturing hub for the Mideast and North Africa.
- *Sales, After-sales, and Financing.* The lack of professional sales staff and high turnover rates are challenges, especially in Saudi Arabia, where regular and recurring training programs are vital for business

success. Creating a positive customer experience by providing traditional Arabic hospitality is essential to success in the United Arab Emirates. By contrast, in Turkey, attractive finance offerings are among the most critical success factors.

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Manufacturing clusters around Istanbul and Bursa will make Turkey a key manufacturing hub for the Mideast and North Africa.

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**The Andeans.** This cluster is marked by a rather mainstream demand for global products—but complicated by differentiating protectionism and complex tariff systems.

- *Product Design and R&D.* Complex adaptations are unnecessary in this cluster, given the homogeneous demand focused on the two smallest-vehicle segments (compact A-segment and B-segment cars) across all markets. Chile is the only market with a distinctive taste for SUVs and pickup trucks, importing most of its vehicles from Europe, North America, and Asia.
- *Sourcing and Production.* Complex tariff systems point to three different production strategies that are needed in tandem. First, Argentina can be a regional manufacturing hub serving other markets. Second, import tariffs that range from 16 to 40 percent—as well as growing local demand—make small-scale local production better for Colombia and Venezuela; this strategy includes complete knock-down (CKD) approaches that use local assembly of imported parts. Third, Chile can be served entirely by imports and does not require any manufacturing operations.
- *Sales, After-sales, and Financing.* The need for geographic coverage differs across the markets. In Argentina, for instance, 60 percent of one leading OEM's dealers operate around Buenos Aires; by contrast,

only 30 percent of its dealers in Chile are located around that market's largest five cities.

**The North African Belt.** This cluster offers significant long-term potential, especially as a gate to Africa, making it increasingly attractive to OEMs.

- *Product Design and R&D.* Companies seeking to operate as high-volume players in this cluster require a competitive budget-car offering. Local customer demand is driven by low price but also influenced by the ability of vehicles to handle poor road conditions, constant heat, and varying fuel quality.
- *Sourcing and Production.* While still limited, localization—especially in the Tangier area of Morocco—is an increasingly attractive low-cost option for OEMs and suppliers seeking to expand the manufacturing capacity needed to serve Africa and southwest Europe. Morocco's supplier base already offers local integration of up to 50 percent.
- *Sales, After-sales, and Financing.* In a market in which budget cars drive volume, a cost-optimized network is essential. Lean or ultralean dealers that are simple and small—just 300 to 500 square meters in size—must keep distribution costs at a competitive level.

# THE CLUSTERS UP CLOSE

## AN IN-DEPTH LOOK AT THE CHALLENGES AND OPPORTUNITIES

**T**HE DIVERSITY OF THE BEYOND BRIC markets means that OEMs must adopt a tailored go-to-market strategy while compensating for the subscale nature of each market. One top executive explained, “The big challenge for OEMs is finding a regional approach, within which they can treat markets individually; that is, working through country offices and identifying local success factors while ensuring economies of scale.” In this chapter, we explore each region—and unique regional approach—in depth.

### The ASEAN Nations: The Hot Spot

When considered as a strategic cluster, the ASEAN Nations represent both the most developed and most dynamic of the four clusters we studied. Within this cluster, Indonesia, Malaysia, and Thailand are the most important tier 1 markets.

As a cluster, all ten markets generated a combined 3.1 million in new-vehicle sales in 2012. By 2020, this annual total is projected to rise to 4.6 million, making this regional market larger than the Russian national market, which will have 4.4 million new-vehicle sales.

The ASEAN Nations’ great automotive potential is driven by the increasing wealth of its 600 million inhabitants; the cluster’s

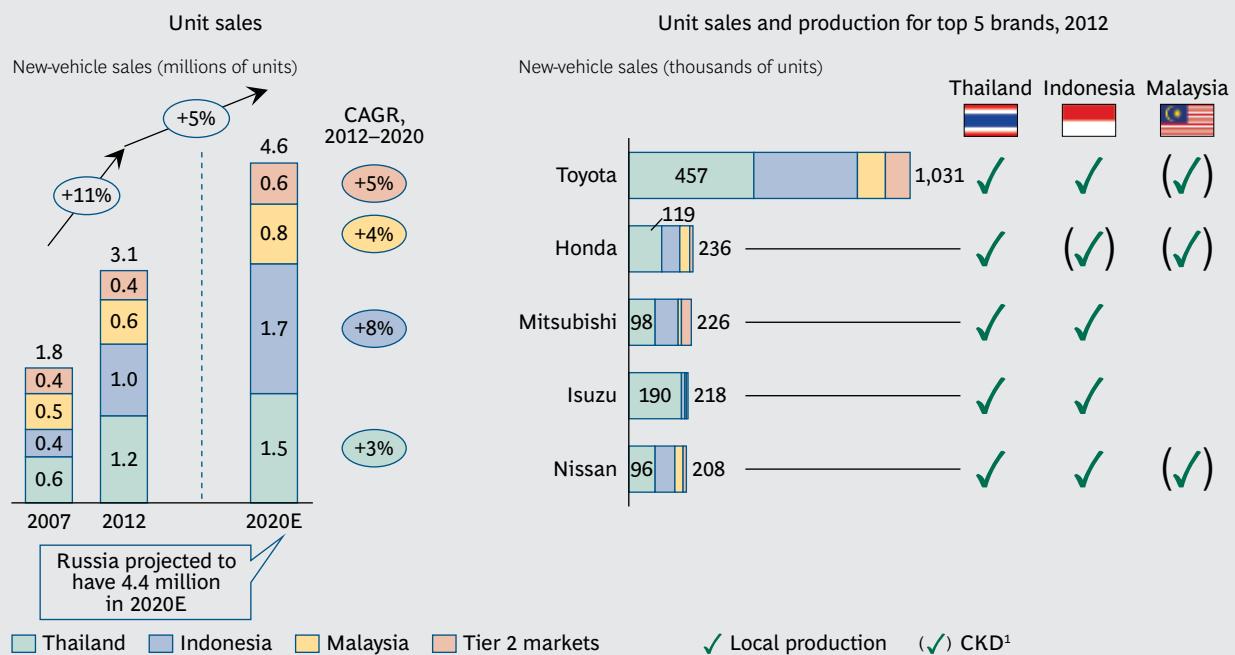
GDP per capita is projected to grow 3 percent annually from 2010 through 2020. Indonesia, with 1.7 million annual new-vehicle sales projected by 2020, will become the largest market not only in this cluster but also anywhere in the Beyond BRIC world. As one CEO of an international OEM told us, “Indonesia is certain to be one of the most important emerging markets for the automotive industry. It will be a key battleground of the future.”

Our projections for the new-vehicle market in this cluster are illustrated in Exhibit 4. We foresee the following:

- New-vehicle sales will grow 5 percent annually through 2020, when regional demand will be 4.6 million units.
- Indonesia’s annual growth rate of 8 percent will drive much of this expansion and cause this market to overtake the cluster’s current regional leader, Thailand, by 2020.
- The markets of Malaysia, Philippines, and Vietnam will also grow dynamically, from 4 to 5 percent annually.

**Customers and Competition.** The ASEAN Nations are characterized by diverse customer demands that are highly specific to the individual markets within the cluster.

## EXHIBIT 4 | By 2020, New-Vehicle Sales in the ASEAN Nations Will Surpass Those in Russia



Sources: IHS Automotive; BCG growth model.

Note: Tier 2 markets are Brunei, Cambodia, Laos, Myanmar, Philippines, Singapore, and Vietnam. Sales figures are rounded; they are listed for each OEM's total sales and largest market in the cluster. CAGR = compound annual growth rate.

<sup>1</sup>Complete knockdown, local assembly.

- Pickup trucks are very popular in Thailand, holding a commanding market share of 39 percent.
- Indonesia is dominated by MPVs that are used largely to transport entire families; they have a market share of 51 percent. Critical local demands include high ground clearance, which is necessitated by regular flooding.
- In Malaysia, 27 percent of all cars are sedans, reflecting the social importance of owning a status symbol.

The varying demands mean that no single car model can be sold in large volumes across all the ASEAN markets. There is, however, a growing common demand across these markets for small-size cars. Sales in this segment are projected to reach about 1 million in Thailand and Indonesia by 2020, but market variations will remain a factor.

In Thailand, consumers pay reduced taxes of just 17 percent on “eco car” purchases—almost half the taxes paid for traditional cars. In Indonesia, by contrast, the government

supports “low-cost green cars” by making their purchase entirely tax-exempt.

**Small-car sales will reach about 1 million in Thailand and Indonesia by 2020.**

Despite the diverse consumer demands in the cluster, the ASEAN markets have a highly concentrated competitive landscape. They were among the first international targets of the Japanese OEMs, which still dominate with a market share above 60 percent. By contrast, European and U.S. OEMs remain marginal players in the cluster; each has annual new-vehicle sales well below 80,000.

**Localization.** Production has grown rapidly in the ASEAN Nations in recent years, yet it remains confined to a few markets.

- In the five years from 2007 to 2012, output rose 14 percent annually, growing from 2.1 million units to 4.1 million units.

- The cluster's production capacity is concentrated almost entirely in the three major ASEAN markets. Thailand accounts for 59 percent of output, Indonesia for 24 percent, and Malaysia for 14 percent.

This concentration reflects the strong incentives for OEMs to localize value chains across the ASEAN markets.

- Manufacturing locally rather than importing can, as Exhibit 5 shows, lower the duties paid by OEMs by 40 to 80 percentage points.
- Thailand offers localizing companies an eight-year corporate tax holiday and an exemption from import tariffs on machinery.

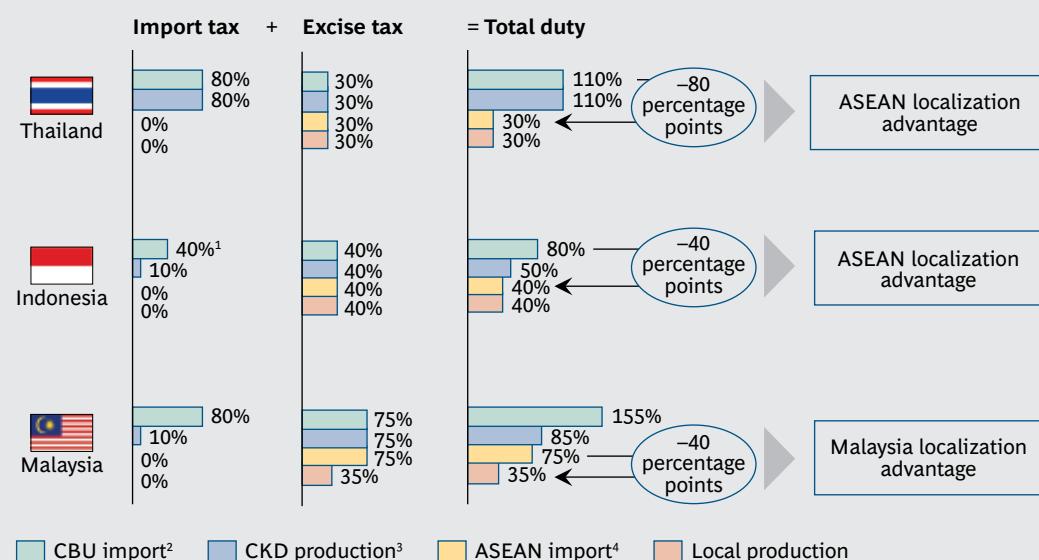
- While the supplier base has grown, local sourcing remains focused primarily on locally based multinational suppliers headquartered in Japan. The potential cost savings that could be achieved through truly local supply is estimated at about 20 to 30 percent.

Under these circumstances, Western OEMs considering localization are at a competitive disadvantage compared with established Japanese players.

## The Emerging Mideast: The Heterogeneous Giant

The largest of the four strategic clusters of Beyond BRIC auto markets (as measured by projected new-vehicle sales for 2020) is

### EXHIBIT 5 | Localization in the Largest ASEAN Markets Can Cut Duties by 40 to 80 Percentage Points



**Sources:** IHS Automotive; government information; BCG analysis.

**Note:** Numbers refer to the duty advantage for vehicles with 1.6-liter engines.

<sup>1</sup>The import tax is 40 percent on a sedan; the import tax is 20 percent on other two-wheel drive vehicles with a 1.6-liter engine.

<sup>2</sup>A complete built unit imported from outside the cluster.

<sup>3</sup>A complete knockdown assembled locally.

<sup>4</sup>An import from the tier 1 markets of Malaysia, Indonesia, or Thailand.

Japanese companies dominate localization.

- Toyota, the market leader in the cluster, has established production facilities in all the main ASEAN markets, producing approximately 1.8 million units in 2012, including pickup models for global markets.

also the most culturally diverse. The Emerging Mideast cluster incorporates Turkey on the European border, the markets of the Gulf Cooperation Council (GCC) in the south, Pakistan in the east—and many different (and different types of) markets in between.

It will have 700 million inhabitants—10 percent of the world’s population—by 2020. It will also gain increasing wealth as its GDP per capita is projected to grow 3 percent annually from 2010 through 2020. Yet these advantages must be considered alongside the cluster’s disadvantages: the effects of sanctions against Iran and latent political uncertainty following the Arab Spring.

While this is a heterogeneous regional cluster, with individual markets growing at widely differing speeds, the long-term potential of the region as a whole is beyond any doubt.

As one industry expert told us, “Markets like Turkey, Saudi Arabia, and Iran have to be on the list of every high-volume car manufacturer taking a long-term perspective.”

Our projections for the Emerging Mideast, illustrated in Exhibit 6, foresee the following:

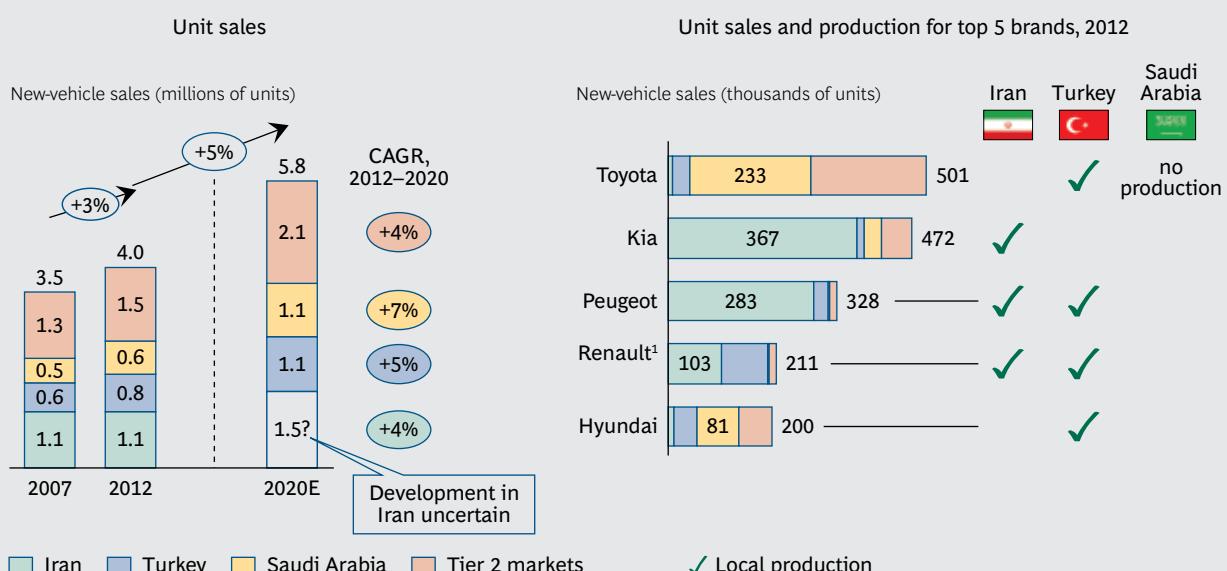
- The Emerging Mideast will grow 5 percent annually through 2020, creating a market of 5.8 million new-vehicle sales—making it a larger market than Brazil, which is projected to have 5.2 million.

- Iran, Saudi Arabia, and Turkey will account for more than 60 percent of total sales in this cluster.
- Saudi Arabia, with a growing population and rising wealth, will expand fastest, growing 7 percent annually through 2020.

**Customers and Competition.** Diverse customer preferences across the Emerging Mideast cluster are shaped by the region’s widely varying cultures and population groups.

- Iranians opt for smaller A-segment cars; this segment accounts for 35 percent of the market.
- Turkish customers prefer the B- and C-segment cars, which are compacts and sedans. Combined, these two segments hold 54 percent of the Turkish market. At the same time, tax incentives for private buyers make commercial vehicles remarkably popular; these command a 17 percent share of the market.

## EXHIBIT 6 | Despite Political Uncertainty, the Emerging Mideast Will Be the Largest Cluster through 2020



**Sources:** IHS Automotive; BCG market forecast model.

**Note:** Tier 2 markets are Afghanistan, Bahrain, Bangladesh, Bhutan, Iraq, Israel, Jordan, Kuwait, Lebanon, Mongolia, Nepal, Oman, Pakistan, Qatar, Syria, United Arab Emirates, and Yemen. Sales figures are rounded; they are listed for each OEM’s total sales and largest market in the cluster.

<sup>1</sup>CAGR = compound annual growth rate.

<sup>1</sup>Includes Dacia in selected markets.

- Saudi buyers prefer bigger cars such as SUVs and pickup trucks; combined, these two segments currently account for 35 percent of new-vehicle sales. Among these buyers, acute price awareness and functionality are the top areas of focus.

Especially in Saudi Arabia, status is a significant factor in shaping consumer choices. The vehicles most popular with consumers are spacious and affordable cars—and, increasingly, vehicles with status-enhancing features and accessories such as alloy rims, audio options, and tuned bumpers.

The competitive landscape varies across the markets in the cluster.

- Iran is a highly concentrated market: the traditional top brands—Kia, Peugeot, and Renault—captured more than 75 percent of the country's market share in 2012. Multinational OEMs might retreat from Iran in response to U.S. sanctions; this could position Iran Khodro, a strong local CKD player, to gain further importance through its work with alternative partners such as emerging-market OEMs.

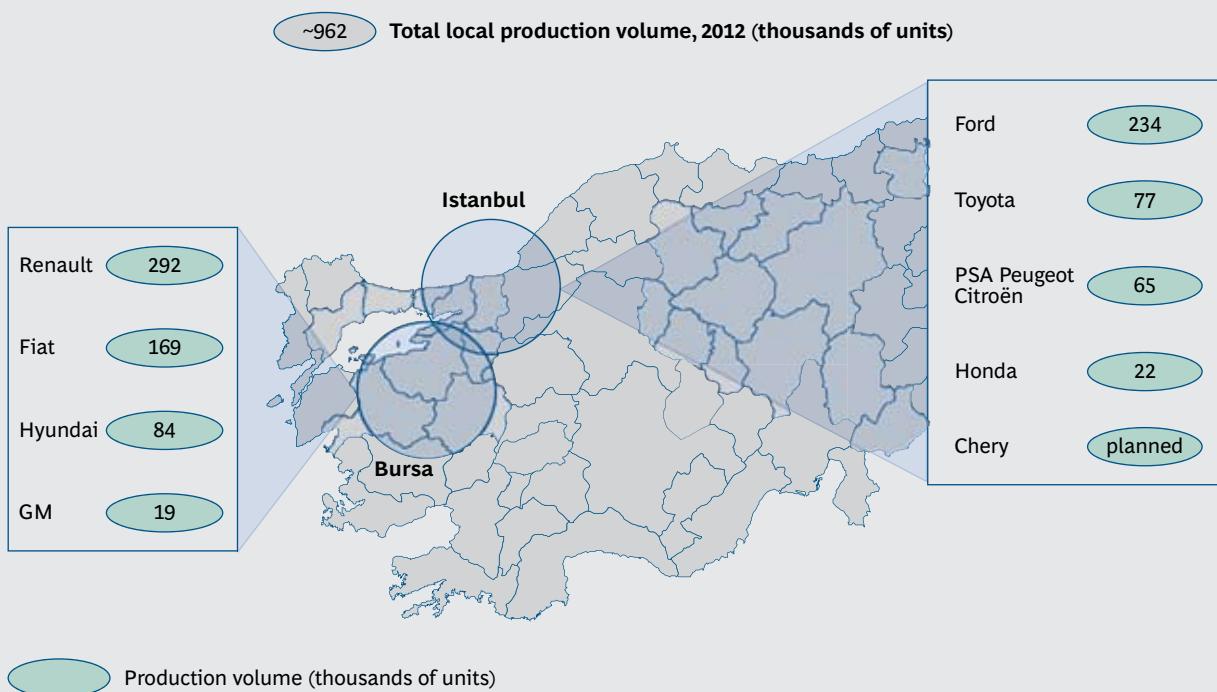
- Turkey is dominated by European players and their auto models.
- Consumers in Saudi Arabia are strongly influenced by Asian and U.S. brands.

**Localization.** The Emerging Mideast's production capacity is concentrated in Turkey and Iran. The cluster's total output of 2.4 million units in 2012 is projected to rise to 3.6 million in 2020, but the retreat of major international OEMs from Iran clouds the forecasts.

One probable consequence of the trends and developments is that Turkey will gain importance. A number of reasons make this likely:

- Turkey will build on progress already achieved through large government incentives, free trade with the European Union, and continuous public investments in infrastructure.
- Turkey's automotive production clusters in Istanbul and Bursa are being developed systematically, and they already deliver significant output. (See Exhibit 7.)

#### EXHIBIT 7 | In Turkey, Production Is Concentrated Around Istanbul and Bursa



Sources: IHS Automotive; government information; BCG interviews; BCG analysis.

- Led by Renault, Fiat, and Ford, many major OEMs have already established a presence in Turkey. Initially, many sought to use Turkey as an export hub for Europe, but more and more companies are also using their Turkish operations to reach the Mideast and North Africa.

Turkey's potential is enhanced by a supply base that has grown alongside OEM development over the past decade. Today, the nation has more than 4,000 components manufacturers, and they produce almost all the critical automotive parts. Of these suppliers, about 70 percent are small or midsize enterprises.

## The Andeans: The Mainstream Market

Framed by Brazil to the east and Mexico to the north, the Andeans form a fast-growing strategic cluster. The region's cumulative demand there is expected to reach 2.9 million new-vehicle sales by 2020. Optimism for the Andeans is based on the cluster's combined population of 197 million generating 3 percent annual growth in GDP per capita through 2020. This trend reflects the region's overall macroeconomic stability and an obvi-

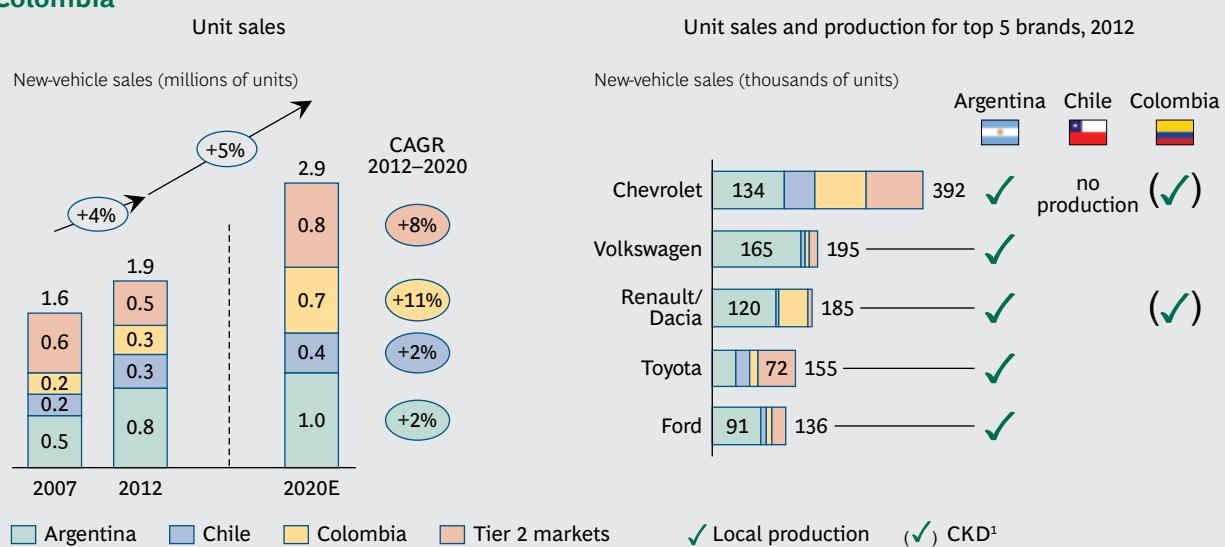
ous richness in natural resources. Of course, some potential risks exist in the form of political instability, as in Venezuela, and economic downturns, as in Argentina. But the overall positive trends seem solid.

In 2020, the Andean car market will be nearly as large as the German car market.

The tier 1 markets of Argentina, Chile, and Colombia are expected to account for more than 75 percent of the total new-vehicle sales in the cluster in 2020. Our projections for the Andean car markets, as illustrated in Exhibit 8, foresee the following:

- Annual growth of 5 percent through 2020, will lead to 2.9 million new-vehicle sales. This would make the Andean car market nearly the size of the German market (at 3.6 million).
- Thriving Colombia, and its 11 percent annual growth, will be the main driver of this expansion. Argentina and Chile will grow only at 2 percent annually.

**EXHIBIT 8 | Sales in the Andean Cluster Will Grow Steadily, Driven Largely by a Thriving Colombia**



- Argentina will remain the largest market in the cluster, reaching 1 million in new-vehicle sales by 2020.
- Alternative fuels such as compressed natural gas (CNG), which powers a world-leading 22 percent of Argentinean vehicles, are important but require only limited product adaptations. In most cases, these adaptations are made through after-sales solutions rather than through changes to a vehicle's design.

**Customers and Competition.** Demand is mostly homogeneous across the Andeans, making it possible for auto companies to succeed even with a limited product portfolio. As one top auto executive told us, “You can enter the Latin American market with one car model for several different countries.”

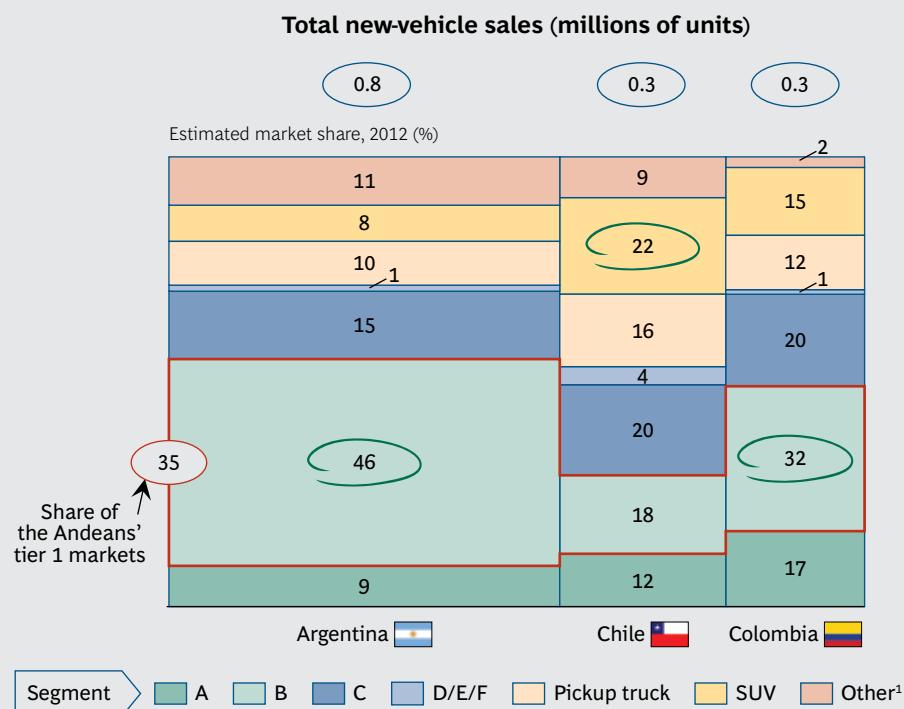
- Andean customers are generally price sensitive. As the number of people who can afford a car in these markets increases, these new consumers demand reasonably priced entry models and attractive financing options.
- In such a market, small and midsize cars (A- and B-segment cars) are universally popular and already account for about half of total new-vehicle sales in Argentina and Colombia. The B segment is led by cars such as the Chevrolet Aveo and Volkswagen Gol. (See Exhibit 9.)

GM’s Chevrolet brand dominates the Andean competitive landscape with a total market share of 18 percent. Its strength is spread across the main markets; it ranks first in Colombia and Chile, and second in Argentina.

Chevrolet’s strength is a serious challenge to new entrants, but new OEMs are increasing competition, particularly in the crucial entry-level segment, in which new entrants from France and South Korea have made rapid progress with affordable entry models.

**Localization.** In 2012, the Andeans produced 1.1 million units, approximately 70 percent of these in Argentina. Based on the varying tariff systems of the cluster’s individual

### EXHIBIT 9 | B-Segment Vehicles Are the Most Popular in the Andeans



**Sources:** IHS Automotive; government information; BCG interviews; BCG analysis.

**Note:** Market share figures are rounded. CAGR = compound annual growth rate.

<sup>1</sup>The Other category consists mainly of car-derived vans (CDVs) and minivans (MVANS).

markets, three main models exist for localization in the Andean markets. One major OEM uses all three, as illustrated in Exhibit 10.

- *Argentina can serve as a regional producer.* Leading OEMs such as Volkswagen, General Motors, and Ford have localized to serve sizable domestic demand and avoid tariffs ranging from 11 percent to 28 percent for imports from other Latin American markets.
- *Small-scale local production (CKD) is better for Colombia, Ecuador, and Venezuela.* Annual production volumes below 100,000 help meet the dual challenges of limited local demand and import tariffs that range from 16 to 40 percent.
- *Chile, which has no tariffs, can be served entirely through imports.* Japanese OEMs use their Asian production hubs to import cars to Chile. “We manufacture in Argentina but focus fully on imports in Chile,” one senior manager at a Japanese OEM told us.

Embracing these differentiated approaches, which respond to varying tariff systems and protectionist measures, offer a key to sustainable success in the cluster.

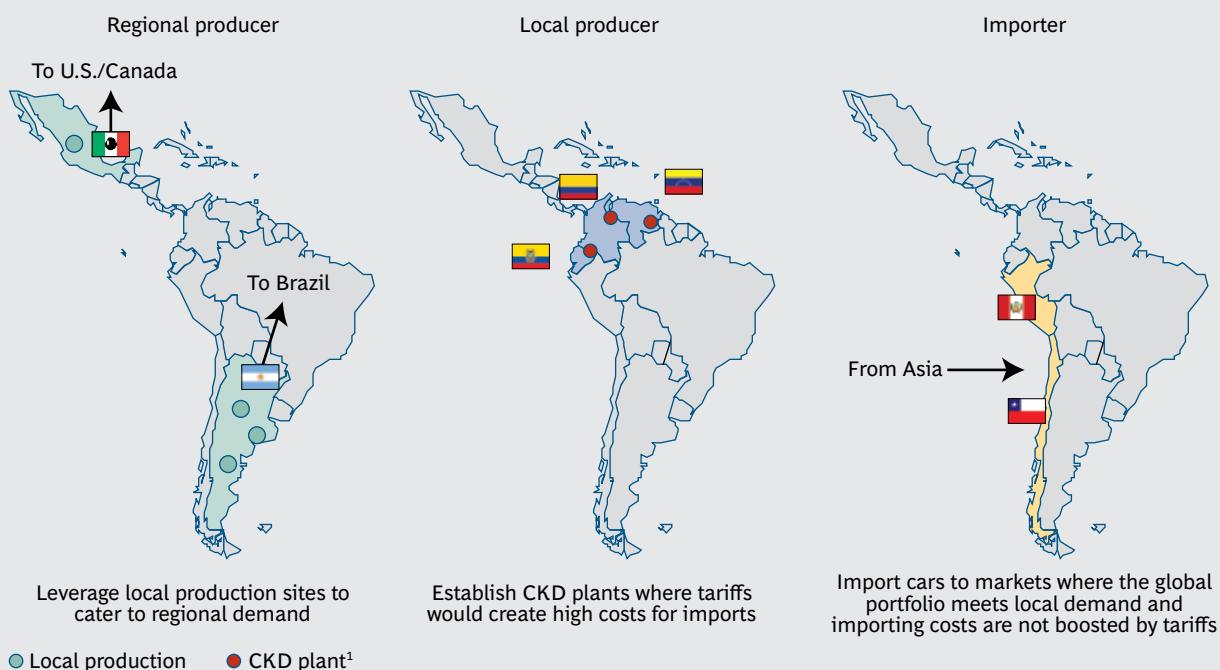
## The North African Belt: The Gate to Africa

The North African Belt, ranging along the Mediterranean coast from Morocco in the west to Egypt in the east, is leading the transformation of an African automotive landscape that until recently was confined largely to South Africa.

The North African Belt is expected to have 1.2 million new-vehicle sales by 2020.

Led by Algeria—the cluster’s largest, most resource-rich market—the North African Belt is expected to grow into a regional market of 1.2 million new-vehicle sales by 2020. Political instability remains a risk in the re-

### EXHIBIT 10 | Tariff Structures in the Andeans—and in Latin America Overall—Drive Localization Strategies



Sources: IHS Automotive; January 2013; BCG interviews; BCG analysis.

<sup>1</sup>Complete knockdown, local assembly.

gion, but the signs of economic development are positive. Morocco, where North Africa's first automotive-manufacturing cluster is developing, offers one positive example.

Our projections for the North African Belt, illustrated in Exhibit 11, foresee the following:

- Annual growth of 4 percent will expand the cluster from 900,000 new-vehicle sales to 1.2 million by 2020.
- Algeria, Egypt, and Morocco will have clear dominance, accounting for 90 percent of the cluster's sales by 2020 and leaving Tunisia and Libya more marginal markets.

**Customers and Competition.** North African customers have limited purchasing power and, thus, are highly sensitive to price. At the same time, they demand both quality and the durability needed to cope with poor road conditions. This has led to a market dominated by B-segment cars in Algeria (market share of 42 percent) cars and Moroc-

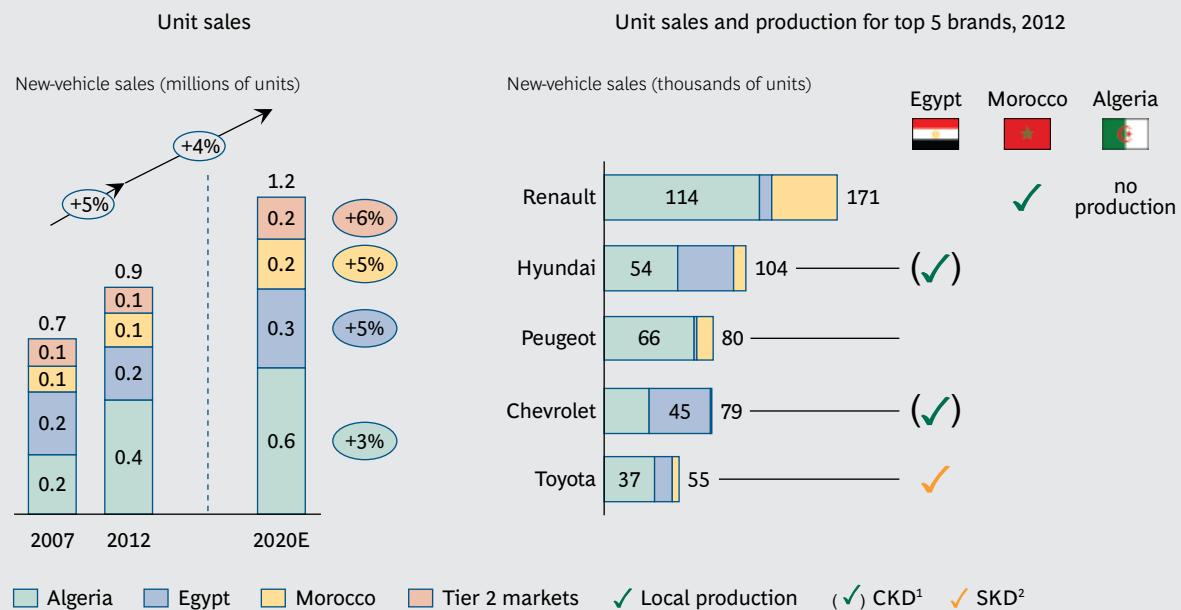
co (30 percent share); whereas in Egypt, C-segment cars are popular (39 percent share). The mismatch between consumers' spending power and their product requirements has stimulated a thriving used-car market over the past decades. But as salaries rise, partly as a reaction by governments to the Arab Spring, so does demand for new vehicles. Among the big sellers are budget cars such as Renault/Dacia's Logan.

French carmakers dominate the competitive landscape. Across the cluster, they have a market share above 30 percent. Renault/Dacia has taken significant market share from established Asian OEMs by introducing budget cars like the Logan.

But their dominance faces a challenge. Growing competition from China is making the market tougher. Chinese companies like Chery, Great Wall Motors, and Changan Automobile are targeting Algeria and Egypt as key export markets. (See Exhibit 12.)

**Localization.** Significant investment by OEMs is expected to triple production

## EXHIBIT 11 | The North African Belt Will Have New-Vehicle Sales of 1.2 Million by 2020



Sources: IHS Automotive; BCG growth model.

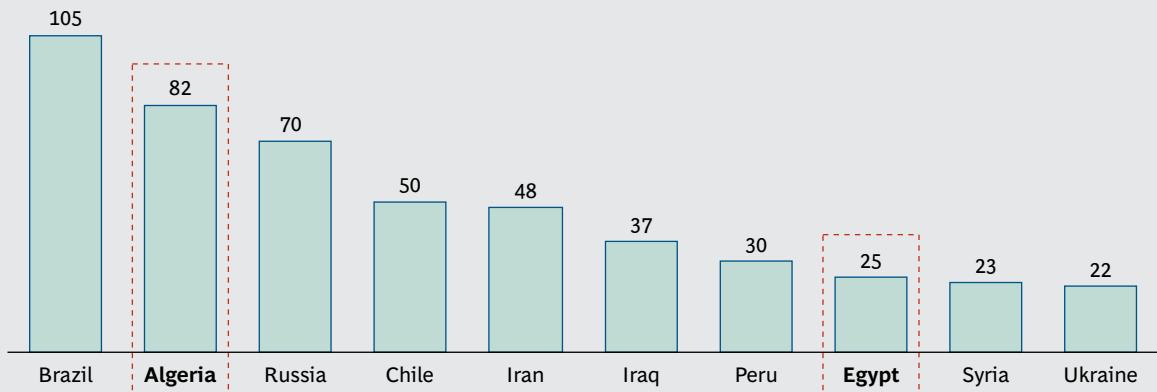
Note: Tier 2 markets are Libya and Tunisia. Sales figures are rounded; they are listed for each OEM's total sales and largest market in the cluster. CAGR = compound annual growth rate.

<sup>1</sup>Complete knockdown, local assembly.

<sup>2</sup>Semi-knockdown, some local assembly.

## EXHIBIT 12 | Algeria and Egypt Rank Among the Top-Ten Export Destinations of Chinese OEMs

Exports of major Chinese OEMs by destination (thousands of units, 2011)<sup>1</sup>



Sources: China Association of Auto Manufacturers 2012; publications; BCG interviews; BCG analysis.

<sup>1</sup>New and used-car exports from Chinese companies including BAIC International, Brilliance China Automotive, Changan Automobile, Chery, Dongfeng Motor, Geely Automobile, Great Wall Motors, JAC, and Lifan Group.

volumes in the North African Belt from about 200,000 units to about 600,000 by 2015. But growth will be accompanied by a geographical shift within the cluster. Localization was formerly confined to Egypt, where import tariffs of more than 40 percent prompted OEMs to develop small-scale CKD and semi-knockdown (SKD) production facilities. But political instability in Egypt has made the country a much less attractive site for localization.

Morocco is now emerging as the cluster's dominant producer.

- This market has built a dynamic automotive ecosystem. Already, more than 200 companies employ about 70,000 people.
- Three other factors are also helping to drive localization in the market. Morocco

boasts competitive labor costs; relative geographic proximity to Europe, Sub-Saharan Africa, and the Mideast; and heavy investment in infrastructure such as the expansion of the Tanger Med port. Renault has invested about €1 billion to build what will be Africa's largest auto plant, which is expected to produce 400,000 units in Tangier by 2015.

- Supplier networks have also grown in Morocco and Tunisia. Global suppliers such as Yazaki, Sumitomo, and Delphi have chosen North Africa as a low-cost production base to serve Europe's car factories.

Given these combined factors, the hub of the North African motor industry is shifting westward.

# SUCCESS FACTORS FOR WINNING THE RISING AUTO MARKETS

ONE OF THE BIGGEST challenges when defining a growth strategy, top executives from major OEMs continually tell us, is deciding the extent and focus of localization efforts. These decisions should be based on a clear understanding of the company's specific ambitions, the requirements of the local market, and the competitive landscape.

## A User's Guide to Localization

As part of our Winning the Localization Game series, BCG has developed a tool to help companies meet the demanding challenge of defining the right expansion strategy for emerging markets. This proven framework has a track record of delivering success in a variety of strategic development tasks over the past seven years.

Exhibit 13 illustrates that OEMs and suppliers generally follow a five-stage localization strategy in the Beyond BRIC clusters, moving across a spectrum that spans from a home-market focus to a global one.

- *Home players* focus their activities on Beyond BRIC markets by only exporting a small number of vehicles to tier 1 markets. No R&D or production activities are conducted in those four clusters.
- *Exporters* maintain a minor presence in Beyond BRIC markets by operating some

limited-production facilities such as CKD plants. But these facilities remain fully controlled and led by headquarters.

- *Explorers* localize some key functions by, for example, establishing full-fledged plants and sales operations to manage larger local volumes. Yet headquarters still maintains a strong influence on local strategies.
- *Settlers* localize their main functions in Beyond BRIC clusters, allowing local management to operate with relatively greater autonomy from headquarters. Minor R&D activities and a production network serving the cluster typify this stage of localization.
- *Global players* localize all their core functions within the Beyond BRIC clusters. The local operations maintain responsibility not only for local but also for global functions, such as R&D competence centers or a production network serving global demand.

Applying this BCG framework to the level of localization achieved by the Top 14 global OEMs shows distinctive variations across the four strategic clusters. (See Exhibit 14.)

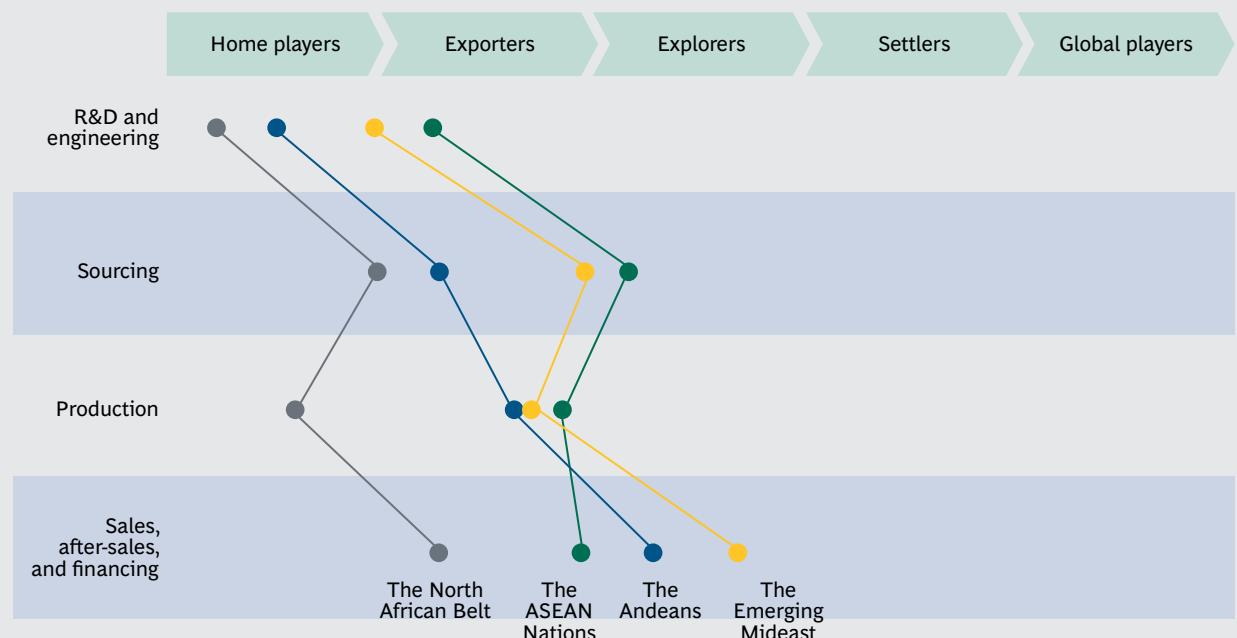
**The ASEAN Nations.** Overall, localization across this region averages out somewhere

### EXHIBIT 13 | The Path for Expanding Beyond BRIC Follows Five Steps in Localization

	Home players	Exporters	Explorers	Settlers	Global players
Characteristics	Serving only through low-volume exports	Minor presence, key functions under tight control of headquarters	Independent presence in some functions, headquarters still has strong impact	Fully independent from headquarters, key functions covered by local staff and organization	Fully independent from headquarters, with global responsibility of selected functions
R&D and engineering	No presence	No presence	No presence, only minor adaptations	Minor local R&D activities	Major local R&D activities
Sourcing	No presence	Simple parts	Submodules	Wide array of products	Full-fledged worldwide network
Production	No presence	CKD production/ small local production	One fully-fledged, large plant	Several plants	Several large plants, also serving other regions
Sales, after-sales, and financing	Only low-volume exports with independent partners	Own wholesale company, only key functions localized	Own wholesale entity, sales network for tier 1 and tier 2 cities	Regional office and own wholesale entity with cross-market sales	Regional office and own wholesale entity, also in charge of exports
	Basic after-sales business, limited mainly to spare parts	Systematic after-sales, basic financial-services product portfolio in selected dealers	Systematic after-sales, financial-services, and used-car businesses in tier 1 and tier 2 cities	Broad range of financial-services, used-car, and CRM activities in the region	Broad range of financial-services, used-car, and CRM activities in the region

Source: BCG analysis.

### EXHIBIT 14 | Localization Stages Vary Across the Beyond BRIC Clusters



Source: BCG analysis.

Note: The average localization stage achieved by 14 major international OEMs from North America, Europe, and Asia.

between the exporter and explorer stages, but there are wide variations across the markets within the cluster. Japanese OEMs are far ahead, with established R&D centers and production sites serving global demand. Consequently, American and European OEMs—currently underrepresented in the cluster—could capture the significant potential if they successfully localize across all the steps in the value chain.

**The Emerging Mideast.** Some OEMs serve the large markets in Turkey and Iran through local sourcing and manufacturing, with Iran's tariff structures making local production vital to ensuring competitive positioning. Yet, most OEMs still see the Emerging Mideast as an export market. A large number of imports serve Saudi Arabia, Turkey, and the United Arab Emirates, accompanied by comparatively high localization of the sales and after-sales step in the value chain.

**The Andeans.** The high demand for cars and the substantial number of imports in this cluster illustrate why sales and after-sales functions are more localized than production functions. But localized production and some localized sourcing do exist as a response to Argentina's strong traditional production base and CKD plants in Colombia and Venezuela.

**The North African Belt.** Suppliers in this cluster are far more localized than OEMs, leading to comparatively high levels of local sourcing by the OEMs. Production is still limited but will grow once output from Renault's Tangier plant runs at full capacity after 2015. (Some production at the plant will also be reserved for Nissan.) R&D localization is limited because of low demand for local adaptations to vehicles.

## Product Design and R&D: Meeting Customer Requirements

"A common mistake is trying to impose a one-size-fits-all product strategy on all emerging markets. It does not work," an executive sales manager at a leading OEM explained. While it is not always necessary to localize R&D, outposts can be an effective way to gain a deep understanding of customers' de-

mands. The degree of localization that is required varies by cluster.

**The ASEAN Nations.** Customer requirements vary across major markets and are also subject to market-specific adaptations. Indonesia's regular floods create a demand for MPVs that feature high ground clearance, while Thailand is a pickup market, and Malaysia's customers favor sedans.

**The Emerging Mideast.** Preferences differ, but existing models from global OEMs and second-life-cycle vehicles—older-model vehicles manufactured as affordable options for emerging-market consumers—predominate, with few market-specific product adaptations. (For more about market- and cluster-specific adaptations, see the sidebar "A Recipe for Satisfying Customer Needs: Four Critical Ingredients in Turkey.")

*"A common mistake is trying to impose a one-size-fits-all product strategy on all emerging markets."*

**The Andeans.** Customer requirements are largely homogenous, with OEMs mostly selling selected models from their global portfolios.

**The North African Belt.** Consumers in this cluster demand a budget car that combines affordability with reasonable quality and the ability to cope with poor road conditions and extreme heat.

Analyzing the products available in Beyond BRIC markets and conducting interviews with top executives in the four strategic clusters has helped us identify three primary types of product strategies for OEMs looking to expand in these markets.

- 1. Select the markets that best fit the existing product offering.** Introducing global models can work well in markets in which customer preferences are met by existing models that require little or no

## A RECIPE FOR SATISFYING CUSTOMER NEEDS

### Four Critical Ingredients in Turkey

Turkey illustrates the importance of cultivating deep market knowledge. Companies that seek to be major players in the high-volume segment in that market should follow a recipe for a successful offering that features four necessary ingredients:

**Engines Smaller Than 1.6 Liters.** Anything larger than this threshold is subject to higher rates under Turkey's Special Consumption Tax (SCT). Engine size, therefore, is crucial. Engines below 1.6 liters are subject to an SCT of just 37 percent on a new car. Those above 1.6 liters are subject to an SCT of 80 percent, and those larger than 2 liters are subject to an SCT of 130 percent.

**Commercial Vehicles.** One way consumers can minimize their tax burden is to buy a commercial vehicle—even if they intend to

drive it for private use. A new-car buyer adopting this approach pays an SCT that is 22 percentage points lower than the SCT on a car with a 1.6-liter engine.

**Diesel Engines.** Turkey's fuel prices are approximately 20 percent higher than those in Germany and 2.5 times higher than those in the U.S. Consequently, fuel economy weighs heavily with customers. Diesel fuel, which costs €1.80 a liter, offers considerable savings over gasoline, which runs about €2.00 a liter.

**Automatic Transmissions.** In extreme urban traffic, automatic transmissions offer consumers much greater convenience. Istanbul in particular has one of the highest rates of traffic congestion in Europe, subjecting motorists to long, persistent jams and stressful stop-and-go journeys.

adaptation. This strategy is common in the Andeans and, for some high-volume models, in the Emerging Mideast.

2. **Adapt existing car models.** When current models cannot satisfy local market demand, R&D plays a critical role. Any market-specific product changes must be incorporated into all the processes across the value chain. This approach has been used to meet a range of local requirements in the ASEAN Nations. Toyota, for example, adapted its Sienta model with great success to create the MPV Avanza for the Indonesian market, incorporating ground clearance that was 50 millimeters higher than the standard in order to cope with regular flooding. It also adapted a low-cost exterior and interior design, enabling the company to price the Avanza 30 percent lower than the Sienta.
3. **Systematically design a budget car.** R&D also plays a vital role in developing cars that are low-priced, profitable, and adapted to emerging-market conditions such as poor roads and low-quality fuel.

Experts agree that, while it is not essential to localize R&D in Beyond BRIC markets, R&D outposts are needed to ensure that the OEMs gain a comprehensive understanding of local markets from a product-development perspective. “Dacia’s success in recent years is certainly based on, among other factors, its product development for emerging markets,” one executive told us. South Korean and Chinese companies are also promoting their budget models in the Beyond BRIC clusters, with Chinese competitors particularly active in Africa. (See the sidebar “When Designing a Budget Car, Affordable Is Not the Same as Cheap.”)

## Sourcing and Production: Localizing Operations in the Right Way

Localizing sourcing and production functions in Beyond BRIC markets must be a priority for every OEM with international ambitions. Renault offers a good example through its current investment in building a production plant in the Tangier region, which is strategically located to serve both North

## WHEN DESIGNING A BUDGET CAR, AFFORDABLE IS NOT THE SAME AS CHEAP

The price sensitivity of the Beyond BRIC markets is on display on their roads, where the average vehicle is more than ten years old. Yet as wealth grows, so does demand for new vehicles. Models with entry prices below €10,000 could both significantly expand the customer base and establish brands within new customer groups.

Affordable, however, need not mean cheap.

Most customers in Beyond BRIC markets are well aware of quality standards in developed markets and demand an appropriate level of quality themselves. Their demand is underpinned by their need for durability in a challenging environment that is often plagued with poor roads, varying fuel quality, and an extreme climate. It is further driven by a pervasive and simple need for value.

Simultaneous demands for low costs and high quality pose a challenge to any OEM. Yet a selection of key features can make a budget car successful.

**Cost-Optimized Engineering.** Using 50 percent fewer parts with much less complex-

ity can save costs without compromising quality. A vehicle's dashboard, for instance, can be constructed as a single injection-molded part.

**Limited Electronics.** Keeping technology simple makes a car easier to repair—and, thus, better suited to markets in which spare parts are rare and do-it-yourself repairs are common.

**Adaptation to Poor Road Conditions.** By elevating a car's ground clearance, auto-makers can decrease the risk of damage by stones, water, and debris in the road.

**Flexibility on Fuel Quality.** In the Beyond BRIC clusters—notably the North African Belt—engines should be capable of running on the lower-quality fuel that is often available to motorists.

**Customized to Local Needs.** Locales with extreme climate conditions may demand, for instance, that even budget cars require air conditioning.

Africa and Europe. (See the sidebar “Renault Is Building Africa’s Largest Production Plant in Morocco.”)

When it is compared to sourcing from Triad markets, local sourcing enables cost savings of 20 to 30 percent.

In our analysis, we have identified two primary approaches to sourcing and production in Beyond BRIC clusters: intelligent sourcing of parts and the tailoring of localization strategies.

**Intelligent Sourcing—or How to Effectively Source Parts Locally.** The ASEAN Nations' highly complex tariff system makes produc-

tion across the cluster an essential approach for reducing costs. Indeed, local sourcing is a critical success factor in the ASEAN Nations. When it is compared to sourcing from Triad markets, local sourcing enables cost savings of 20 to 30 percent.

But this approach has its drawbacks: localizing sourcing across a number of subcritical markets rather than centralizing sourcing makes it harder for companies to achieve the benefits of scale or to realize synergies with suppliers across the value chain. One major OEM has found an effective solution: the intelligent sourcing of parts.

The intelligent sourcing strategy of this OEM, illustrated in Exhibit 15, taps the advantages of specialization along with the benefits of the ASEAN free trade agreement to ship automotive parts and components between

## RENAULT IS BUILDING AFRICA'S LARGEST PRODUCTION PLANT IN MOROCCO

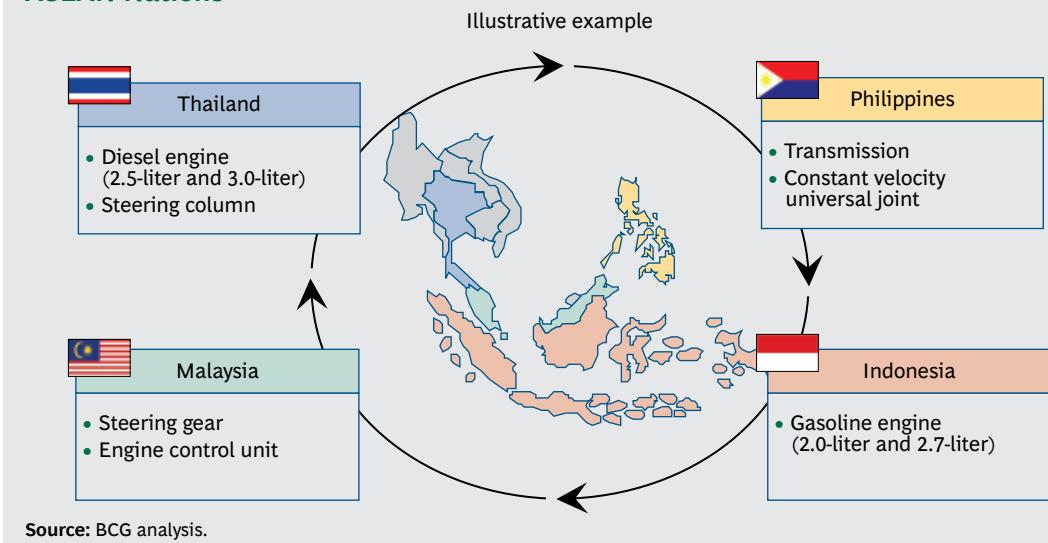
Renault has an ambitious plan for its new plant in Morocco: it expects the facility to produce 400,000 units and up to 60 cars an hour by 2015. Realizing this goal will make the plant—in which Renault has invested €1 billion—the largest production plant in Africa. (Some production at the plant will also be reserved for Nissan.)

In early 2012, Morocco's King Mohammed VI and Carlos Ghosn, the chairman of Renault and Nissan, inaugurated the megaplant near Tangier. The plant's opening represents the latest success in Morocco's drive to attract investment by global champions. More than 200 companies have located in Tangier's free-trade zone next to the new Tanger Med Port, a

transportation hub. With an initial capacity of 3.5 million shipment containers, the hub is one of the largest cargo and passenger ports in the Mediterranean Sea.

Production of full vehicles will start with two new models from Renault's Dacia brand: a new family car, the Lodgy, and a small multipurpose vehicle, the Dokker. While some of the cars manufactured in the plant are likely to be sold in the region, the bulk of the output is intended for southwest Europe. By 2015, the plant is expected to employ approximately 6,000 people directly as employees—and more than 30,000 people indirectly through suppliers and service providers.

### EXHIBIT 15 | One OEM Deploys an Intelligent Sourcing Network Across the ASEAN Nations



production locations across the ASEAN markets. Under this approach, for example:

- In Thailand, the OEM's supply base specializes in manufacturing diesel engines and steering columns—even for use in its global production.
- In Indonesia, its focus is on sourcing parts to produce gasoline engines.

This intelligent sourcing strategy for automotive parts enables the OEM to achieve scale and creates significant cost advantages.

**Tailoring Localization—or How to Align Local Strategies with Market Conditions.** Localization in the Andean cluster—and in the entire Latin American region in general—is heavily influenced by trade systems and free trade agreements (as we described

earlier in this report in our detailed exploration of the cluster and in Exhibit 10). One major OEM has developed its localization strategy accordingly, using Argentina and Mexico as regional hubs that serve local demand and export vehicles to Brazil and within the Mercosur free trade area; developing CKD production lines in low-volume, high-tariff Colombia, Ecuador, and Venezuela; and importing directly into tariff-free Chile.

## Sales, After-Sales, and Financing: Tailoring Networks and Services to Varying Needs

Sophisticated sales and after-sales strategies are essential to fully exploit the market potential of all Beyond BRIC markets. Again the best strategies vary by cluster.

**The ASEAN Nations.** In this cluster, competitors must catch up with the well-established strength and high standards of Japanese OEMs—built not least on optimized sales and after-sales approaches. Only by understanding the networks of local partnerships and becoming a part of them can OEMs gain a foothold in the cluster.

Competitive financing is also a plus in this cluster; OEMs that excel in residual value management are able to offer the most attractive interest rates to customers.

**The Emerging Mideast.** In this cluster, the challenge is creating professional sales networks by establishing high-quality dealerships that feature well-trained sales personnel and low rates of employee turnover. Also critically important is the offering of after-sales accessories. (See the sidebar “In Saudi Arabia, Accessories and Features Present an Opportunity for OEMs.”)

**The Andeans.** The top priorities for functions in this cluster are finding the right degree of geographical coverage and addressing consumers’ demand for flexible financing.

**The North African Belt.** OEMs operating in this cluster need to create lean dealerships that can profitably distribute budget cars and

focus on supplying “wear and tear” replacement parts in isolated areas.

Two considerations determine success in sales and after-sales efforts in the Beyond BRIC markets: how sales networks are set up and how service offerings are tailored to local market conditions.

The heterogeneity and challenging business conditions of Beyond BRIC markets present a major challenge for sales operations, requiring companies to reconsider several elements of the sales structure, such as partnerships, sales coverage, and sales operations.

**Partnerships.** Sustainable and strongly developed partnerships with capable local experts are the key to long-lasting success. OEMs seeking to gain access to the ASEAN markets, for example, will find it crucial to build partnerships with large local conglomerates. Indonesia mandates that international companies operating in the market establish joint ventures with local players, but this approach would make business sense even without the legal requirements. Such partners have significant influence on the local retail market—for example, OEMs can rely on them to gain access to attractive locations for dealerships and hence accelerate gains in local sales.

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In the ASEAN markets, competitors must catch up with the well-established strength and high standards of Japanese OEMs.

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**Sales Coverage.** Delivering the right level of sales coverage is critical. In the Andeans, market leader Chevrolet follows a market-specific strategy for its sales network. In Argentina, 60 percent of the company’s dealerships are concentrated in or around the capital, Buenos Aires. By contrast, in Chile, 70 percent are located in tier 2 cities and rural areas.

## IN SAUDI ARABIA, ACCESSORIES AND FEATURES PRESENT AN OPPORTUNITY FOR OEMS

One strikingly unexploited business opportunity is providing Beyond BRIC markets—particularly the markets of the Gulf Cooperation Council (GCC) and, among these, particularly Saudi Arabia—with automotive accessories and features.

In Saudi Arabian society, cars are an important means of expressing status and individuality. The importance of the car is further intensified by limited leisure options and limited opportunities for individuals to differentiate themselves and their individual style in their daily life through, for example, fashion. One market expert described car-user behavior in Saudi Arabia as “driving for the sake of driving.”

More than 50 percent of the population in this market is younger than 30 years old, and the average Saudi’s spending power is limited—despite a significant concentration of wealth at the top end. Consequently, younger Saudis struggle to afford status-enhancing new cars.

Customers, BCG has found, often purchase moderately priced vehicles and try to

upgrade them with popular accessories and features. Purchasing patterns indicate that these consumers prefer:

- Sound systems
- Navigation systems
- Lighting features
- Aluminum rims and tires
- Bumpers and spoilers.

When 480 interviewees were asked in 2011 about the challenges of the Saudi Arabian car market, 72 percent complained about the limited availability of accessories and features.

“There are 18 unauthorized accessories-fitting businesses making the market. Why don’t OEMs take advantage of this business opportunity?” asked one official of the Jeddah Chamber of Commerce.

**Sales Operations.** In many Beyond BRIC markets, sales networks are beset by a lack of professional skills among local staff, which limits sales and leads to a poor brand experience among customers. To solve this problem, the German OEM Audi offers a model for professionalizing a Beyond BRIC sales network and draws a clear competitive advantage from its Audi Academy, introduced in Dubai in 2010. The academy trains and develops local sales personnel through a detailed program, and it has improved the quality of the OEM’s dealerships, attracted top talent, and sustained sales by enhancing brand loyalty.

Beyond the sales function, local market conditions should drive after-sales and financing service offerings in Beyond BRIC markets.

**After-Sales Services.** For the majority of Beyond BRIC customers, a car is a carefully considered investment that must last longer than ten years. Since most road conditions are challenging and most traffic networks are underdeveloped, the availability of spare parts and regional after-sales coverage are important success factors for OEMs. The availability of accessories and features as retrofitting options should also be considered, particularly in markets in which consumers value status—such as Saudi Arabia, for example.

**Financing Services.** Customers in Beyond BRIC markets typically have limited spending power. This makes flexible and affordable financing vital to sales growth. In the tier 1 ASEAN markets, 60 to 80 percent of new cars are financed. In the Andeans, collective financing and flexible purchasing

models are increasingly important. (See the sidebar “OEMs Are Making Use of Alternative Financing in Latin America.”) Consequently, offering attractive interest rates and financing models and actively managing the

residual value of cars are vital to local success—but these also pose a challenge in markets where the creditworthiness of purchasers is not documented by special credit agencies.

## OEMS ARE MAKING USE OF ALTERNATIVE FINANCING IN LATIN AMERICA

The *consórcio*, a purchasing model devised in Brazil in the 1960s, increases the range of financing possibilities available to OEMs across Latin America.

The model is based on a collective savings fund. Under this approach, a closed pool of participants pay monthly installments over a fixed period—typically five to six years—to fund the purchase of a designated car model.

Every month, the pool uses a lottery to determine which participant receives a new car. The purchase is fully funded by the aggregate amount of the monthly installments. Every participant is guaranteed to receive his or her preselected car model at some point over the lifetime of the *consórcio*.

The installments are interest-free (but adjusted to inflation), and no down pay-

ment is necessary. In return, each participant must accept an uncertain delivery time. Such schemes are used in various Latin American markets and are offered by several OEMs. For example, Chevrolet operates Chevy Plan in Colombia, Ecuador, and Venezuela; Renault offers Plan Rombo in Argentina and Colombia.

For OEMs, the benefits of a *consórcio* include:

- Making inflows of cash more predictable.
- Expanding the customer base to groups with limited spending power.
- Increasing share in the financing market.
- Improving the customer offering.

# WINNING IN THE NEXT COMPETITIVE ARENA

**T**HE BEYOND BRIC MARKETS are the automotive industry's next great battleground—and a far more challenging one than even the BRIC domain has been. Companies that have recently moved beyond the Triad markets to adeptly add the BRIC markets to their target list must now spread their attention further to a broader and still more complex and diverse world.

Given the breadth of the Beyond BRIC challenge, it is little wonder that few OEMs have as yet achieved more than a selective local impact. But any company with ambitions to remain, or become, a serious global competitor must find ways to achieve major successes in multiple Beyond BRIC markets.

BCG's analysis of the companies that are making an impact points to the need for a stringent regional approach to a multiplicity of subscale markets. There are serious prizes on offer to OEMs that commit themselves beyond BRIC by offering a product portfolio that caters to diverse needs, setting up supply chains and production operations that span market boundaries to serve regional clusters, and advancing excellence in local sales networks.

Those that fail—or fail to try—will be shut out of the industry's last frontier, the last great global opportunity for large-scale growth.

# APPENDIX

## METHODOLOGY

**T**HIS REPORT, THE FOURTH in the series *Winning the Localization Game*, taps local know-how from BCG's own automotive experts, along with that gleaned from more than 70 interviews with senior executives from leading OEMs and suppliers active in Beyond BRIC markets. Growth dynamics were analyzed using IHS Automotive data and a quantitative BCG growth model devised to assess future market sizes.

Throughout the report, the following definitions are used.

**Beyond BRIC Markets.** Initially, BCG examined all 123 markets outside the BRIC (Brazil, Russia, India, and China) and established Triad (the U.S. and Canada, Europe, Japan, and Australia and New Zealand) markets.

Through our analysis, we grouped those Beyond BRIC markets that offer the greatest promise to the automotive industry into four strategic clusters. (Other industries will find that different subsets of the Beyond BRIC markets and different strategic clusters offer the most promising opportunities.)

**New-Vehicle Sales.** Sales figures reflect sales of new passenger cars and light commercial vehicles weighing less than 3.5 tons. Market share is reported as a percentage of all cars—new and old—on the road.

**Auto Segments.** We used the segment classification of IHS Automotive, which ranges from the smallest A-segment cars to the most-luxurious F-segment cars. SUVs, pickup trucks, and multipurpose vehicles (MPVs) were treated as separate segments.

# FOR FURTHER READING

The Boston Consulting Group has published other reports on the automotive industry and on achieving global advantage that may be of interest to senior executives. Recent examples include those listed here:

## **Transforming Russia's Auto Industry**

A Focus by The Boston Consulting Group, July 2013

## **Asia's Next Big Opportunity: Indonesia's Rising Middle-Class and Affluent Consumers:**

A report by The Boston Consulting Group, March 2013

## **The 2013 BCG Global Challengers: Allies and Adversaries**

A report by The Boston Consulting Group, January 2013

## **The Most Innovative Companies 2012: The State of the Art in Leading Industries**

A report by The Boston Consulting Group, January 2013

## **2012 BCG Southeast Asia Challengers: The Companies Piloting a Soaring Region**

A report by The Boston Consulting Group, March 2012

## **Winning the BRIC Truck Battle**

A report by The Boston Consulting Group, February 2012

## **Powering Autos to 2020: The Era of the Electric Car?**

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# NOTE TO THE READER

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