Roland Berger
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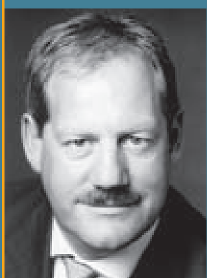
> Wholesale Fitness Program to support future market growth
> Interview: Paul Philpott, Chief Operating Officer, Kia Motors Europe
> The Rare Earth Challenge: How to react and what the expectations for the future are

inSIGHTS



Editorial

Dear Reader,

As this year draws to a close, it is time to take a look back at 2011. It was a very successful year for both automotive manufacturers and suppliers. The industry recovered quickly from the crisis, set new records and was all about new technologies such as electromobility.

Over the course of the year, we took a detailed look at these topics in our last issues of inSIGHTs. So it is time to look ahead and think about how the successful year 2011 can be leveraged in 2012, even under more and more tough market conditions. In light of this, our latest issue centers on a wholesale fitness program for European and national sales companies, describing a tailored approach on how to flank the exploitation of additional sales potential.

In addition to the cover story, we have an exclusive interview with Paul Philpott, COO of Kia Motors Europe. He gives us insights into Kia's rapid change over the past few years, the latest developments and changing organizational structures.

Our look around the world focuses on Brazil and Turkey – two quickly developing growth markets. Besides, our current issue also gives you insights into the following highlights:

> Strategic Alliances: It takes two to win – a survey on success factors
> The Rare Earth Challenge: How to react and what the expectations for the future are
> Construction equipment market: Capturing growth markets in BRIC and beyond

I trust that you will find this publication informative, practical and entertaining. I look forward to hearing your views and discussing any questions you may have. I wish you inSIGHTful reading!

Kind regards,

Ralf Kalmbach

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A LOOK AROUND THE WORLD

Brazil – Success factors in Brazilian automotive retail. To secure market position, OEMs need to lift car dealer performance

Brazil's car market is witnessing dynamic growth and it could even gain a global podium position by 2015. But that also means more competition among carmakers. To reap the bounty of this boom, OEMs need to revise their sales processes and focus more intensely on sales excellence. A lack of professionalism among car dealers is hampering carmakers from maximizing their returns from car sales and after sales.

Brazil's car market has seen stellar growth over the past decade, with the number of units sold more than doubling to 3.3 million units in 2010 from 1.5 million in 2000. Even more impressive, growth is expected to remain strong as the Latin American giant becomes increasingly prosperous. Brazil overtook Germany as the fourth-biggest car market in the world in 2010 and could take a podium position as early as 2015.

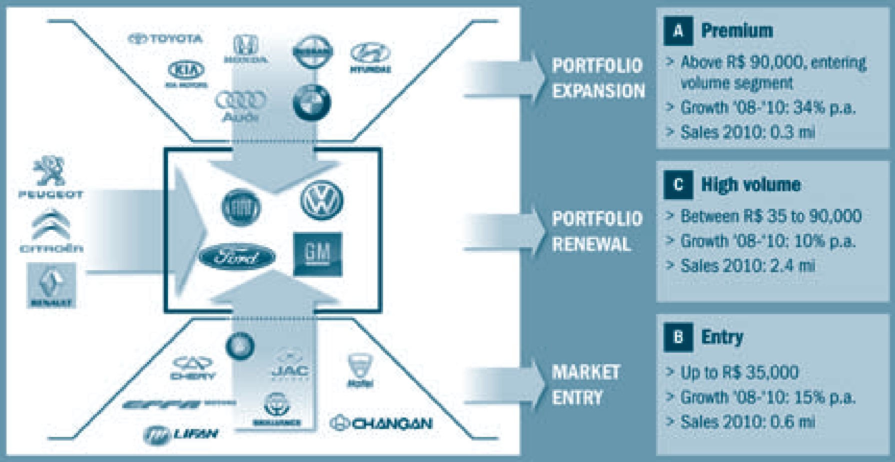
It's not just volume levels that have increased. There are more carmakers and models vying for market share as well. The pressure on the Big-4 incumbent OEMs (FIAT, Volkswagen, GM, and Ford) who still hold >70% market share is increasing steadily.

Global competitors from Europe, Japan and Korea and lately from China are entering the market with ambitious market share goals. All together, their publicly announced ambitions to gain market share sum more than 30 percentage points. In the competitive Brazilian market, this means that some brands will end up being heavily disappointed.

One lever to gain market shares is a proliferation in the model range. A decade ago, Brazilian consumers could choose between 140 different car models. Today, they've got 280 to select from. While that's great for consumers, it's a burden for carmakers unless they've got good dealers plying their wares. That's seldom the case in Brazil, where car dealerships have never gotten used to a dynamic and competitive market, still operating with traditional and outdated sales methods.

While attractive products, equipment and pricing are a must, the real decisive factor in the customers' decision are found within the dealership.

Changes in the Brazilian market and current strategies



Source: Roland Berger

A LOOK AROUND THE WORLD

Once a customer looking at an entry level vehicle (about two thirds of Brazilian new cars are from the B-segment) has left the showroom without signing a contract, he will in all likeliness not return. OEMs thus need to support their dealers to improve the conversion rates as well as their sales and aftersales performance. New retail strategies and a more collaborative relationship are needed to create a win-win situation.

Different tactics for different players

The measures OEMs should take to ensure their future success chiefly depend on their current market position. The No. 1 goal of traditional players is defending their position from newcomers. In response to increased competition, OEMs have actually decreased real list prices (entry level vehicle prices have grown at only 2% p.a. compared to an inflation of 4-5% p.a.) and are incentivizing sales with heavy discounts and promotions. This has hit dealer margins hard. Leading OEMs have also aggressively pushed direct fleet sales, which results in a market flooded with low mileage used cars. This too hurts dealers. Carmakers quickly need to find ways to resolve the tensions that have arisen because of these actions.

Traditional OEMs with a well established dealer network can benefit from making dealer sales excellence a priority, instead of getting caught up in the price-slashing spiral. The focus should be on revenue-bringing activities, achievable through well trained new car sales staff, a professional used car business, reliable after sales work, more parts sales, and other services.

More recent entrants will thrive best by growing their dealership networks in the Brazilian countryside, away from the main cities. Chinese new players, for example, sell themselves as providers of cheap, but well-equipped cars. Until they have established themselves in cities, they won't likely be able to win rural market share.

Structural changes in the dealer networks

OEMs need to tailor their dealer networks and formats based on the regional differences in Brazil. Today, most OEMs are treating Brazil the same way they are treating a Luxemburg – a coherent market where one size fits all. Brazil, however, is sometimes more a continent than a country. Regional differences in culture, customer preference and buying behavior need to be observed when refining a sales strategy.

Sales performance improvement levers

DIMENSION	CURRENT SITUATION	LEVERS FOR IMPROVEMENT
1 Location and infrastructure	> Low coverage of growing markets > Expensive real estate in cities	> Design new store formats (mini-dealers, shopping centers) > Ensure presence in new growth regions
2 Layout and standards	> Heterogeneous layout and out-of-date standards	> Implement uniform and modern layouts in line with global standards
3 Dealer organization	> Low level of professionalism > Start of outsourcing processes	> Increase for dealer efficiency > Consolidate into large groups
4 OEM relationship	> Close relationship for training and processes development	> Increase financial and administrative support > Ensure competitive margins and profitability
5 Dealer workforce	> Reduced career attractiveness > Low compensation	> Design career plan for salesman > Increase performance rewards
6 Sales processes	> Well-structured processes > KPIs measurement	> Focus on execution excellence > Link KPIs to dealer bonuses
7 After sales processes	> Low quality in the market > Fixed prices for checkups	> Fix prices for parts > Increase aftersales quality
8 Dealer financing	> Low support for investments > Margin coming from F&I, aftersales	> Support network expansion/renewal > Recover car margin, increase aftersales margin

Source: Roland Berger

Consolidation in the network is still badly needed, as there are far too many independent small dealers. These are incapable of realizing a consistent flow of investments and offering the sort of sales and after sales services needed to achieve good margins and gain a solid reputation. Future networks will have fewer dealer groups with national coverage and more outlets and sales points. These dealer groups have gained scale and efficiency, especially through the outsourcing of non-core activities, and their management has become more professional. This scale will also help to overcome the rising base cost as operating in the major markets starts becoming prohibitively expensive for a small, family owned dealer.

Lifting car dealership performance

Car dealership profitability has failed to keep pace with car sales. The adoption of new retail strategies wouldn't just help carmakers; it would help car dealers to become more profitable too. Most car dealers in Brazil are independent, family-run operations. Far too many fail to see that selling a car is the start of the earnings stream and not the end. OEMs could do a great deal to change that mindset.

There is considerable untapped potential, especially in financing and insurance, used car sales, after sales, parts and other services. While after sales services provide large profit margins for dealers (although still far away from comparable margins in Europe), they also play a large role in improving customer satisfaction levels and enhancing customer loyalty. These aspects are essential for OEMs to build and maintain market share.

Most Brazilians only take their cars to dealers during the warranty period since they consider dealers to be overly expensive and untrustworthy. After only 3 years, only 10% of consumers still use the dealerships for service and maintenance. Simple measures pushed through by OEMs such as introducing and advertising fixed prices as well as lifting service levels and improving customer care would go a long way to changing that perception.

Taking on a proactive stance toward the lack of qualified sales staff, which hampers dealership performance, is another important step for OEMs to improve their position. Many dealers struggle to compensate headcount turnover of 30-50% per year. OEMs could help dealerships with more sustainable coaching or with designing a more attractive career path for their staff. Performance rewards and market-competitive compensation would be a surefire way to make the workforce more professional, which in turn would make help boost car sales.

Yet greater collaboration between OEMs and dealers cuts two ways. For their part, dealerships need to accept firm KPIs for quality, margins and profitability. New margin systems need to be put into place in order to provide stronger incentives to meet the OEMs expectations. Rather than giving up parts of their independence, dealers should leverage the OEMs to learn from their experience abroad and improve their professionalization.

All in all, Brazil still has a long way to come when it comes to automotive retail. The market will continue to grow for sure. But with increasing competition, excellence in sales and dealer performance is a sure way to succeed. Dealer training programs may help, but will not resolve the problem on their own. A holistic new approach to automotive retail is needed, combining a new sales and aftersales strategy with network optimization and an impactful and sustainable training program for both dealer directors and salesmen.

Stephan Keese
Partner
Roland Berger Strategy Consultants, São Paulo
stephan_keese@br.rolandberger.com

Alexandre Lanz
Project Manager
Roland Berger Strategy Consultants, São Paulo
alexandre_lanz@br.rolandberger.com

A LOOK AROUND THE WORLD

Turkey – Producing a national car back on the agenda

The Turkish government has grand plans for its automotive sector. Not only does it plan to make Turkey one of the most important production hubs in the world, it also wants the country to start manufacturing a car of its own. Given the country's experience manufacturing cars and relatively low car ownership levels, this goal might not be as outlandish as it first appears – especially if investors with deep pockets can be found.

Over the past few decades, Turkey has become a production hub for leading carmakers such as Fiat, Ford, Renault, Toyota and Hyundai. To ensure the long-term growth of its automotive sector, Turkey wants to build upon this position to become one of the world's most important automotive manufacturing centers. It aims to increase local production four-fold to roughly 4 million vehicles. One way it plans to achieve this is by introducing a national car brand.

Three overarching factors are driving the government's national car brand initiative. National prestige is the first factor. Turkey views itself as a developed nation and all developed nations have their own automotive brands. The second factor is the desire to increase the local content in automotive production. Decreasing the trade deficit is the third factor. Since 60% of light vehicle sales are imports, the government has good reason for wanting to improve its trade balance.

Although Turkey has no national car of its own, the government is confident that it can establish a local car brand that sells 200,000 units per year within three years of its start of production (SOP). That would be equivalent to gaining a 20% market share. With an estimated 75% of households in Turkey not owning a car, there is serious untapped potential in the domestic market.

What the grand plan looks like

The original plan to develop and launch a 100% national car has been revised slightly to allow foreign players to be involved in the vehicle construction. The vision today is to produce a car assembled with "mostly Turkish parts" – a modification that makes the plan much more feasible.

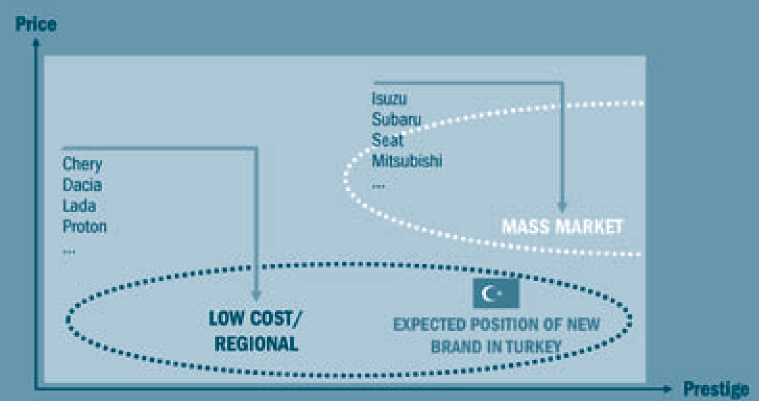
Production levels have to be high enough to enable involved players to benefit from economies of scale. This would be almost impossible if the car were only to be sold in Turkey. It won't be enough to create a domestic national brand; the car will have to be absorbed by neighboring countries as well. That's why the goal is to sell a over 1 million cars in over 10 markets within six years.

On the drawing board are two models for passenger and light commercial vehicle segments. The new car brand would first focus on Turkey, before attempting to extend to promising neighboring countries in the MENA and CEE regions. Pushing into large Western European countries like Germany, the UK and France at a latter stage.

To meet such ambitious sales targets, marketing and distribution expenditures are expected to be over EUR 2 billion in the first decade.

Figure 1: Brand positioning chart

Expected position of new brand in Turkey



Source: Roland Berger

Hard, but not impossible

High investment costs, mature competition, low economies of scale, tightening regulatory standards, and rapid advances in technology are hurdles that must be overcome if the new brand is to reach volume targets. The new brand will compete directly with Dacia, Skoda, Fiat and emerging Asian carmakers for budget-conscious buyers.

As patriotic as Turkish car buyers might turn out to be, distribution and marketing expenditures will remain prohibitive on a per vehicle basis. A local brand must sell at least 400,000 to 500,000 cars to justify the investment, according to many carmakers active in the region. Pressure on profits is immense, especially at the lower end of the car market, where the new brand will be active. Achieving economies of scale and creating solid partnerships will be critical.

Clearly, the plan is ambitious. Yet Turkey's many years of experience in assembling cars, skilled labor market, highly developed supplier market and exporting prowess may be sufficient to make this project a success. The government can do a great deal to launch a new brand. Reducing new vehicle taxes and fees would have the greatest positive impact. Establishing Free Trade Agreements with potential export markets that do not have their own automotive sector would also act as a booster, as would R&D grants and fleet purchases.

The government should not only introduce a more favorable tax regime, it should also create partnered distribution channels, license existing Turkish brands and consider acquiring an existing global brand if its serious about achieving its goal.

Erkut Uludag
Partner
Roland Berger Strategy Consultants, Istanbul
erkut_uludag@tr.rolandberger.com

WHOLESALE FITNESS PROGRAM

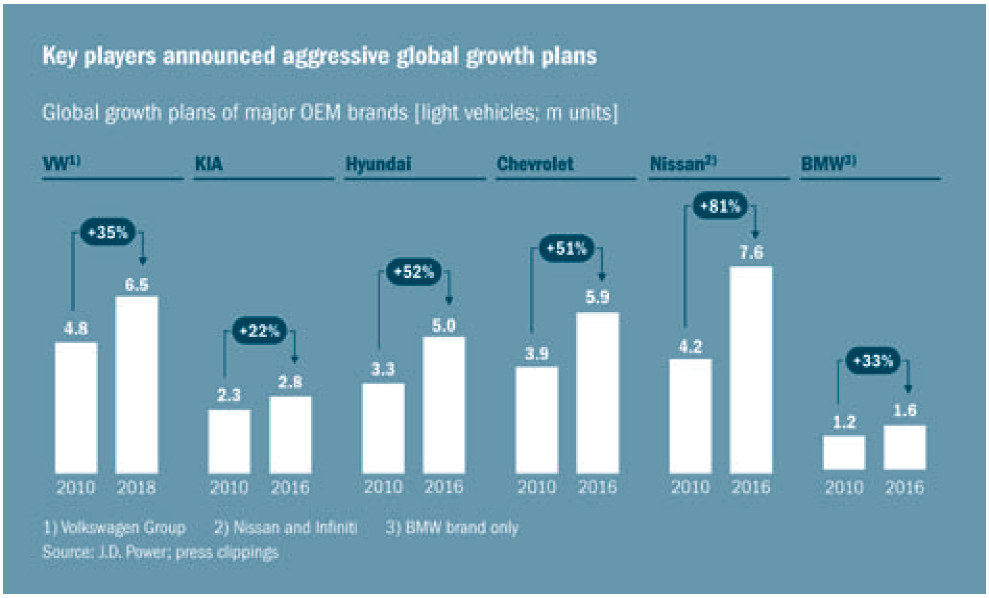
A tailored approach for European and National Sales Companies is crucial to flank the exploitation of additional sales potential under tough market conditions

All major automotive OEMs have announced aggressive growth targets for the year 2016 and beyond – a significant part of which is to be realized in the European region and the German market in particular. At the same time, automotive markets are expected to grow at a very moderate pace, especially the German market, with an annual growth rate of 3.3% to reach approximately 3.5 million units in 2016. Hence, tremendous efforts are necessary on both the retail and the wholesale side to realize defined volume targets. Most OEMs have already conducted or recently launched various Retail Excellence Programs. We believe that these initiatives are necessary but need to be complemented by a tailor-made Wholesale Fitness Program.

The following chart gives an overview of the global growth plans, as announced by OEMs:

Roland Berger recently conducted a check of regional and national sales companies within Europe, revealing significant differences in terms of organizational structure and size between the automotive players analyzed.

While larger OEMs have implemented growth-enabling wholesale structures over the past years, it is mainly small to medium-sized importers that are currently faced with the challenging task of adjusting organizational structures, size and processes to achieve defined growth targets in Europe and especially in Germany.



WHOLESALE FITNESS PROGRAM

The Wholesale Fitness Program addresses six key questions for Chief Executives from small to medium-sized sales companies on a European and national level:

1. How efficient is the current wholesale organization in terms of structure and size and which organizational structure fits best to the defined growth targets?

2. How well are processes documented and interfaces between regional and national sales companies described?

3. How well are task allocations, roles and responsibilities between regional and national sales company level defined?

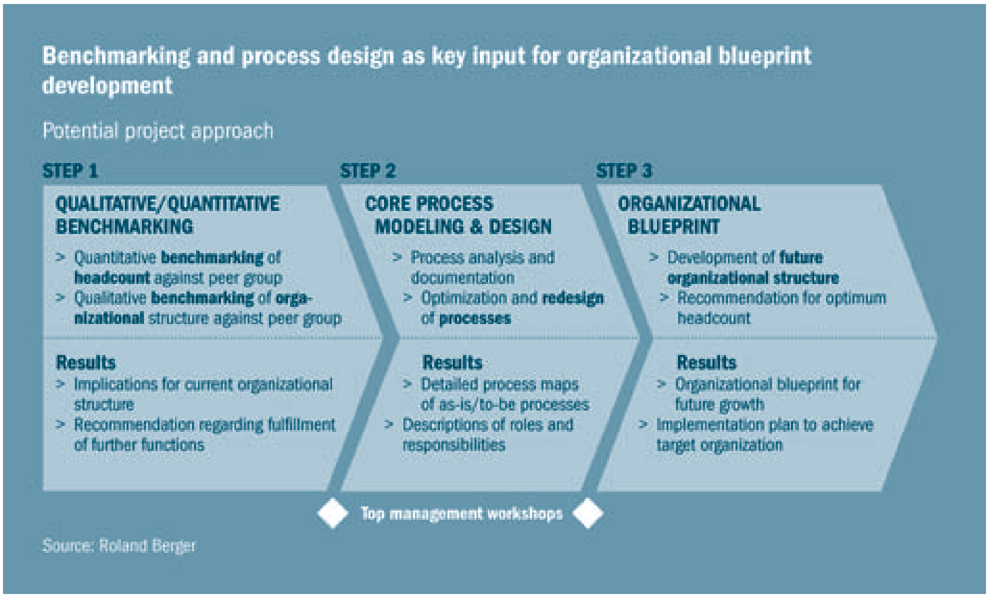
4. Which additional functional areas need to be developed in order to achieve long-term growth targets?

5. How well does the IT infrastructure support retail and wholesale processes and their employees on the respective sales levels?

6. Which set of KPIs is used to monitor the success of the daily business as well as the status of organizational adoptions?

The Roland Berger Wholesale Fitness Program addresses these key questions in a three-step approach. These steps can be modified according to each specific client situation.

The following chart illustrates the potential project approach:



WHOLESALE FITNESS PROGRAM

STEP 1
Quantitative and qualitative wholesale benchmarking

The key objective of the wholesale benchmarking initiative is to map the client's wholesale organization against a defined peer group on European or national sales company level.

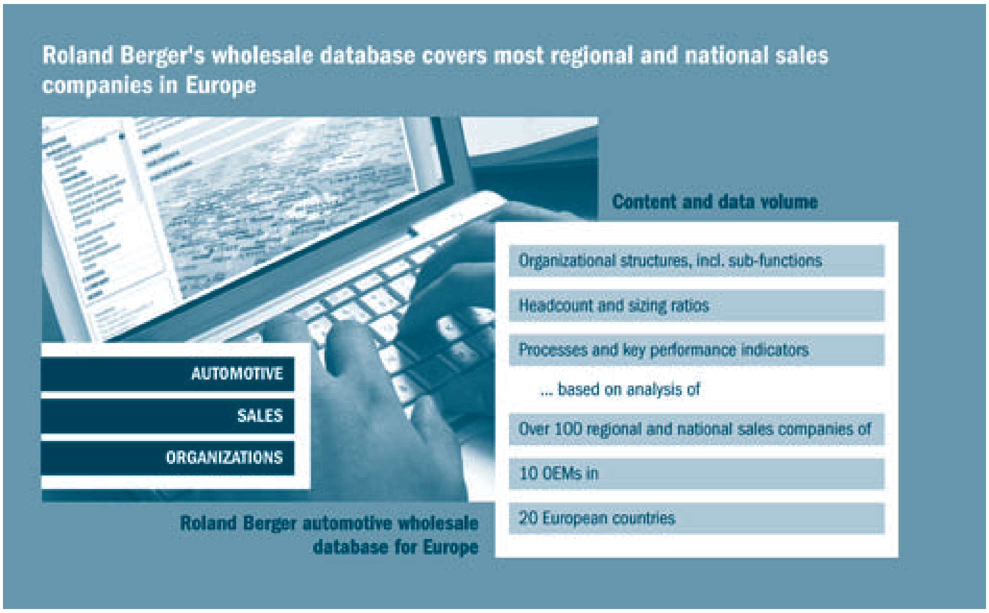
The Wholesale Fitness Program begins with quantitative benchmarking. Organizational units of defined benchmarking partners are converted into a functional structure to allow for headcount figures to be compared anonymously. Different ratios are set up and used for benchmarking. These ratios take different levers into account, such as number of dealers for the "network development" function, overall unit sales for the "sales operations" function or number of controlled markets for certain regional headquarter functions.

Realizable growth targets are taken into account through a market analysis in order to derive the optimum future wholesale sizing. A clear staffing recommendation in accordance with growth targets can be given on completion of the quantitative benchmarking.

The quantitative benchmarking is then followed by qualitative benchmarking. Organizational structures of benchmarking partners are anonymously compared. Key structural differences are mapped against each other and Pros & Cons are derived for each alternative. It is important to note that there is no "good" or "bad".

Each difference needs to be discussed and implications derived jointly. Implications need to reflect the specific situation of the client, such as overall sales volume targets, number of dealers/majority of dealer network and size of car fleet within the respective region and/or country. Implications are formulated as hypotheses and can best be discussed in a joint top management workshop.

The chart below gives an overview of the extensive Roland Berger database, focusing on quantitative and qualitative data/information on European and country levels: The results of the benchmarking initiative are preliminary and need to be validated in step 2 of the initiative, the core process modeling and design.



STEP 2
Core process modeling and design

The key objective is to develop an ideal process map, covering all core and supporting processes for the European/National Sales Company. Of specific interest is the definition of processes at the interface between the two sales levels.

Detailed interviews with all department heads need to be conducted in order to map as-is processes, roles and responsibilities. Current shortfalls are identified and implications can be discussed immediately during the interviews.

To-be processes are derived based on the consolidated interview results, identified shortfalls/implications and available process documentation.

The following chart outlines the typical content of the process handbook that is compiled in step 2: Management, core and supporting processes are mapped first and broken down to second and third process level.

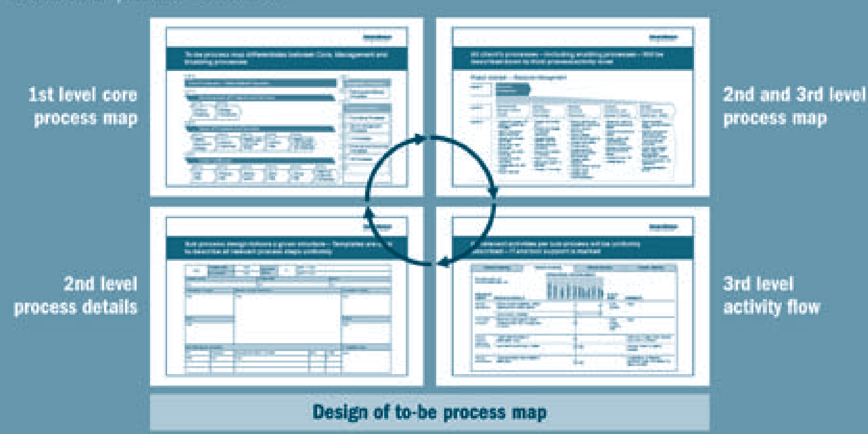
All process steps are described in detail, using defined templates outlining detailed process step descriptions, process input and output, process owners, supporting IT tools and necessary KPIs to measure process efficiency. Activities on the third level are mapped using detailed flow charts.

As already mentioned, the interface between the European Sales Company and the National Sales Companies are of specific interest. As-is interfaces are mapped to identify current "causes of friction" between the sales levels. Roles and responsibilities are detailed to allocate tasks to European or national level and avoid duplication of work. Indirect functions, in particular, can be "centralized" on a European level. For example, IT strategy and system support can ideally be defined on a regional level so that similar systems are run across all countries. The implication of this "centralization" is that solely IT support/helpdesk functions remain at country level.

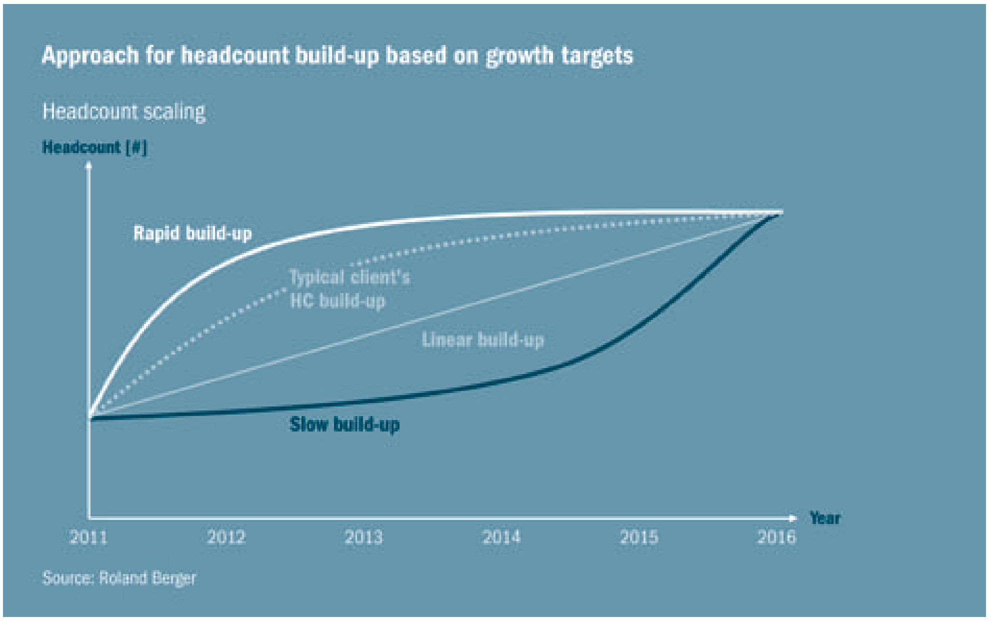
Last but not least, an effective KPI system needs to be installed to measure process effectiveness and to continuously enhance processes at both sales levels.

Proven templates and formats for process modeling/design

Overview of process handbook



Source: Roland Berger



STEP 3

Wholesale blueprint – Final organizational structure and sizing

The key objective of the third step is to consolidate the results of the "qualitative and quantitative benchmarking" and "core process modeling and design" steps into an organizational blueprint for the respective sales company. The organizational blueprint includes the optimum organizational structure as well as the headcount needed to realize growth targets in the region/country.

The optimum organizational structure is defined based on decisions made at the joint top management workshops after each of the preceding project steps. Resources are allocated back from the sub-functions to the organizational units and additional resource requirements are added.

The organizational blueprint illustrates the optimum wholesale setup in the future. In the final step, the necessary headcount build-up needs to be quantified.

Given the specific nature of each OEM's growth targets, headcount in the organizational units needs to be increased at different speeds.

Roland Berger has developed a methodology that encompasses this effect in order to identify the detailed headcount build-up over time for each organizational unit and sub-unit.

The chart above provides the schematic background to headcount build-up within the Sales Company; the approach needs to be tailored to the individual growth targets of the client.

Finally, to bring the organization to the next level of excellence and to guarantee a smooth organizational transition phase, an implementation roadmap has to be developed and executed, as illustrated in the following chart.

WHOLESALE FITNESS PROGRAM

Key deliverables of the Wholesale Fitness Program

ORGANIZATIONAL BLUEPRINT

Results:
- Organizational blueprint
  - Structure
  - Headcount
- Organizational handbook

PROCESS LANDSCAPE

Results:
- Process map
  - Detailed process documentation
  - Activity flows
- Roles and responsibilities
- Interfaces

IMPLEMENTATION ROADMAP

Results:
- Activities
- Persons responsible
- Timeline
- Monitoring of effects

Outcome and benefits

The outlined approach has various benefits, as it can be tailored to the specific client requirements and strategies.

Key benefits for the client include a leaner wholesale organization, increased wholesale process efficiency, clearly defined task allocations between European and national sales levels and, finally, improved steering of the respective retail organization. These improvements, along with measures aiming to increase retail performance, lay the foundation of future growth for the OEMs in Europe and nationally.

We look forward to the upcoming discussions on how to support your growth strategy with an optimum wholesale setup.

Ralf H. Landmann
Partner
Roland Berger Strategy Consultants, Frankfurt
ralf_landmann@de.rolandberger.com

Dr. Marcus Hoffmann
Principal
Roland Berger Strategy Consultants, Munich
marcus_hoffmann@de.rolandberger.com

Andreas Männel
Senior Project Manager
Roland Berger Strategy Consultants, Munich
andreas_maennel@de.rolandberger.com

IT TAKES TWO TO WIN

Survey on strategic alliances: factors for success

In the coming years, important changes are expected in the global automotive industry. The environmental and political framework is changing, the technological challenges are growing, and development costs have to be kept under tight control. In this context the automakers have decided to draw on their expertise and make the push, especially concerning e-mobility. Today, the key competitive levers for change in this highly innovative industry are cost effectiveness and speed – especially in R&D. Even the strongest OEMs and suppliers have to rethink how they can cope with the risks that arise from these circumstances and the additional costs they create. This is where strategic alliances come in as a possible solution.

To remain fit for the future, make technological progress and succeed in the burgeoning BRIC markets, the majority of top-level decision makers surveyed by Roland Berger view strategic alliances as an ideal alternative to M&A activities.

All players along the automotive value chain need to adapt their respective portfolio of competencies. But how? The new Roland Berger study based on a survey of top managers involved in cooperation management from OEMs and suppliers concludes that strategic alliances have the potential to deliver decisive competitive advantages. And, going forward, the relevance of such alliances can only grow. Our survey shows which factors will make strategic alliances work – and what goes wrong when partnerships fail.

Strategic alliances are a promising path

The automotive industry is currently rather like an international dating site. Porsche SE Holding and VW Group are set to merge into an integrated automotive group, Daimler holds several JV's, e.g. with Bosch, and Siemens with Volvo. Technology-intensive investments as well as the need to generate a high speed to market have become too big for most companies to shoulder only by themselves.

Our survey confirms a central insight: In seeking to create new markets, secure resources, lower costs and raise innovative potential, the most promising path is to build strategic alliances. Almost three out of four of the decision-makers we questioned see strategic alliances as a key competitive factor. Companies hope it will bring them greater synergies, economies of scale and easier access to new markets, especially the BRIC markets (86% of respondents).

Vertical and horizontal alliances

Every strategic alliance – whether horizontal, vertical or complementary – has the fundamental aim of strengthening the partners' competitive position. The greatest potential and the greatest success are found, according to the top managers we questioned, in vertical (64%) and horizontal alliances (62%). From vertical cooperation, they expect to see synergies and successful R&D activities, whereas horizontal ventures promise scale economies. In particular, arrangements based on "co-opetition" can make good sense by bringing competitors on board in a format in which they "compete cooperatively" – such as the Star Alliance.

Development: A key driver

In respect of strategic alliances, an overwhelming majority of our competence network hopes for synergies and cost savings not only in production, marketing or sales but, above all, in product development.

IT TAKES TWO TO WIN

The environment is changing, customer expectations are rising. And in tackling the new challenges, 82% of respondents think the best opportunities for organic growth lie in new technological developments – above all achieved through investment in alternative energy concepts and R&D based on cooperation with other manufacturers and suppliers.

Today's development costs are enormous. In 2010, the world's twenty biggest automakers spent a record sum of around EUR 50 billion on research and development – nearly two billion up on the previous year. Probably one of the trends that triggered the cooperation and cross ownership of Daimler with Renault/Nissan in 2010, with the focus on producing economy cars. The synergies are planned to generate a net value of EUR 2 billion for each side. BMW has just agreed on an alliance with Peugeot. They have opted for joint production of components for the electric-powered models – with Munich supplying the high-tech know-how and the French the high-volume output.

Three reasons for failure

However, there is nothing automatic about the viability of strategic alliances in the automotive industry. In fact, they have often turned out badly for some OEMs in the past. Asked why they went wrong, the top managers identified the three most important reasons as (Figure 1): lack of cooperation (76% of respondents), differences in objectives (74%) and lack of cultural understanding (64%). Above all, staff are not properly integrated in the processes and there is inadequate project support from senior management.

These, say the experts, amount to major mistakes, resulting in poor cooperation. As for the structures, bad project management is not usually critical in determining success or failure – say 59% of our respondents – but it does undermine effective collaboration.

Figure 1: Lack of cooperation, different priorities and a lack of cultural understanding were identified as drivers of alliance failure

Reasons for the failure of strategic alliances

Q: In your view, what are the main reasons why alliances fail?

Scale from 1-6: 1 [unimportant] - 6 [very important]
Source: Roland Berger

IT TAKES TWO TO WIN

Learning from mistakes
Our survey has also identified a very diverse set of views on strategic alliances. Some industry insiders believe this form of cooperation cannot bring sustainable success. Others see major development and opportunities for their companies, thanks in particular to the flexibility that alliances enable. However, almost everyone thinks that experience will prove extremely useful in making these partnerships succeed going forward.

A good example of how to learn from one's mistakes can be found in the efforts of two automakers that pooled development and marketing. They failed because the alliance was too broad-based. The automakers had set up an overly complicated system of steering and management groups. They did succeed in jointly producing some vehicles, but the management structures intended to ensure equal status and entrepreneurial independence for each party proved to be too complex. The ensuing conflicts could not be reconciled. One of them drew the right conclusions from this experience. In its later partnership with another OEM, they insisted on retaining strategic leadership and took control of their alliance partner.

Success factors
Yet we can identify the factors that strongly favor a good outcome. We asked our experts to consider these factors and were able to filter out five success factors regarded (by at least 61% of respondents) as critical in making strategic alliances work (Figure 2).

1. **Combining strengths with respect to resources:** In principle, the market rewards partnerships that bring together superior strengths from each side, combine these strengths in a complementary way and largely avoid overlaps.

2. **Cultural fit:** Mutual understanding of the other side's corporate culture is crucial. Cultural differences must be successfully managed. The people involved need to fit into the respective cultures, recognize the partner's strengths, be aware of possible differences and come to respect those differences. Effective risk management must be put in place, defining early warning indicators, creating awareness in each company of its partner's cultural nuances and establishing intermediate goals. Exit options are immanent.

Figure 2: Capable resources, joint goals and top management attention are rated as crucial for the success of strategic alliances

Reasons for the success of strategic alliances

Q: In your view, what are the main factors for success for strategic alliances

Scale from 1-6: 1 [unimportant] - 6 [very important]
Source: Roland Berger

3. **Transparency:** A strategic alliance is built not only on contractual arrangements but also on trust – less in the emotional sense than in the sense of binding commitments and reliable promises. And for trust, strategic alliances need transparency.

4. **Clear objectives:** A cooperative venture requires a definition of the joint strategy. Strategic alliances must have clear objectives. Consistent aims of cooperation must be agreed.

5. **Top management attention:** It is essential to have a professional senior management team that demonstrates a superior level of conviction, enthusiasm and commitment. Senior executives must clearly support the process of cooperation at every stage of the partnership. They must develop a shared vision. A detailed time schedule with binding deadlines will help to instill discipline and correct any managerial mistakes early on.

Conclusion

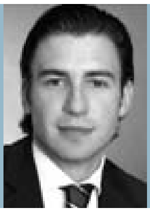
The structure of today's automotive industry will be transformed over the next few years. Strategic alliances can create new markets, secure resources, reduce costs, spread investment risks, expand know-how and raise innovative potential. Going forward, their relevance will grow as they become a critical competitive factor.

The industry experts we talked to see considerable opportunities both in horizontal partnerships – especially joint product development – and in vertical partnerships (joint sales or joint process optimization). However, there is nothing automatic about the viability of strategic alliances.

A company entering into them must be willing to treat its partner as an equal within the alliance and engage fully with the partner's culture. The five success factors identified by Roland Berger were confirmed by top-level managers – now is the time to apply them!

Ralf H. Landmann
Partner
Roland Berger Strategy Consultants, Frankfurt
ralf_landmann@de.rolandberger.com

Hubertus Kappen
Consultant
Roland Berger Strategy Consultants, Berlin
hubertus_kappen@de.rolandberger.com



INTERVIEW – PAUL PHILPOTT

"Kia is changing rapidly"

Paul Philpott
Chief Operating Officer
Kia Motors Europe GmbH

Nearly all car manufacturers have announced ambitious growth targets for the European market until 2015/2016. Defined growth strategies involve aligning organizational structures, as well as size and processes at a wholesale level. This concerns both regional and national sales companies. Looking at Kia's latest developments and award-winning new cars, how have you addressed this topic?

Philpott: Kia is a company that is growing rapidly around the world. Over the past 5 years, global sales have almost doubled, whilst here in Europe we have grown by around 30% in the last 3 years despite the challenging market conditions we have faced. Back in 2009 we set out to become a top ten mainstream brand in Europe within 5 years and we are on track to achieving this goal.

However, in the big 5 markets we are still only achieving an average of 1.6% market share, whilst in the other 20 markets in Europe we are already achieving an average share of almost 3.5%. And in countries like Sweden, Poland, Czech Republic, Netherlands and Finland we are now achieving shares of 5% or more. So as we consider organizational structures for the future, we will first recognize our current position in each market and prioritize those areas where real structural change is necessary. We are looking for less change in the markets where Kia is already very successful, where it's more about adding some specific additional resources to strengthen key functions.

At Kia Motors Europe (KME), over the past two years, the focus has been on establishing the basic organizational structure and processes to support our growth in Europe. Now, however, it is time for us to define the ideal organizational structure that we need to have at KME in 2016, and, also to create a blueprint of the organisations we need in the future in the biggest and most strategically important markets, such as Germany and Italy, where currently our performance is weakest.

Additionally, looking at specific functions, and taking the fleet market as an example where we are still a minor player; this is one of the business units that organizationally we have not yet fully developed. If the fleet infrastructure is not in place, you cannot sell cars effectively through this channel, no matter how good your cars are or how good your brand reputation is, so we need to treat this area as a priority.

From your perspective, what key elements should an organization consider changing, aligned with the growth you have in mind?

Philpott: We need a blueprint for the future organizational structure of an NSC, but at the same time we must be flexible enough to account for the different evolutionary stages of Kia in each market. For example, if we consider dealer network development in the UK where we have made great progress over the last 3 years, we have had our Dealer Development team positioned within the Sales organization, since future sales potential drives most of a dealers investment decisions. But now as we move on to the next phase, which is more about improving the quality of retail processes, enhancing customer experience and increasing the capacity of each dealer, we have separated this department and created a dedicated Network Development Director reporting to the MD. That way we get greater focus on quality and process improvement in our network.

INTERVIEW – PAUL PHILPOTT

In this project, you have chosen to develop a blueprint for Germany and then adapt it for other NSCs. Why did you choose this approach, instead of developing a general blueprint which is then broken down into the different markets?

Philpott: There are obvious benefits in working with our NSC in Germany to create a blueprint. Organizationally they are probably the part of Kia in Europe that requires most change to support its long term vision. Markets like the UK and France may have less change still to go in order to reach the organizational blueprint, whereas our new subsidiary operation in Italy is starting from a very different position. In the end the way the big 5 markets work with the KME organization will define our future success and I believe this project will help us develop the best structures for 2016.

As a subsidiary of an Asian OEM, you are in a special organizational situation. When aiming to implement a clear organizational change, what are the success factors in this context?

Philpott: First and foremost, our company is a Korean company that follows Korean culture and Korean working practices. Naturally, a European regional office and each of our market subsidiaries will have to meet the requirements set by our Korean parent company. But the organization also has to be right for Kia in Europe as well. It has to be able to communicate effectively with Korea and at the same time be right for meeting the needs of European customers. We must demonstrate that the blueprint for Europe will help to create an efficient and effective organization both at KME and at NSCs for the long term.

Regarding organizational change, which department would you put in charge of this transformation phase?

Philpott: Organizational change has to be led by myself and by the Human Resources team. I cannot delegate this project to the Vice Presidents of the three main business functions: Sales, Marketing and Aftersales, but of course they need to be involved. Therefore, the only place where an organizational change process can sit is with the leader of the organization and with its HR team. Basically, it has to be owned across the organization, but the lead is with the top management of the organization.

When you look at the project currently underway, and what you have ahead of you for the next few years, what would you say are the three key success factors?

Philpott: The first success factor has to be to ensure we have the right resources in place in the right structures to deliver our long term plan in Europe. The second success factor is to build clear career paths within Kia for our high potential people, creating an environment that ensures long-term loyalty, and to facilitate organizational moves for people between NSCs, and between NSCs and KME. The last success factor is process efficiency; achieving greater clarity in roles and responsibilities of the regional office and major subsidiaries will lead to greater transparency, more efficiency and less duplication of effort.

We need to bring the Kia organization in Europe to the next level of excellence. Inevitably, the 30% growth that we've achieved over the last 3 years will have been easier to achieve than the next 30%, as competitive pressures rise. One of the biggest advantages that our mainstream competitors in Europe have is their longevity of business. They have well established brands and dealer networks and proven working processes. We are catching up fast but still have a long way to go and we must now prepare our organizational plans for the future.

Why is it important for Kia to make the change now?

Philpott: We are investing heavily in new products and technologies, and production capacity to enable future growth. So the organization has to continue to develop to be the engine room for our long term vision. At the same time, competitors are starting to recognize Kia as a real threat and are watching our moves closely. We now need to prepare our organizational plans for the long term that are closely aligned with our business strategy and ambitious growth plans. So there will be no resting on our laurels – ambition is part of our culture.

BOOKS & STUDIES

Is Brazil a car paradise?

The demand for cars is exploding. And the market is known for being dynamic. It offers enormous opportunities. But buyers are demanding more. The auto industry must adapt.
But how?

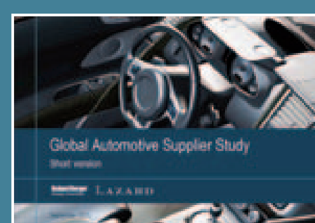
Once the world's biggest debtor and close to bankruptcy in 2002, Brazil has long been a growth driver of the global economy together with Russia, India and China (BRIC).

With rising prosperity, more and more Brazilians want individual mobility – and are buying more and better cars. The car symbolizes a step up in society – so the demand for cool design and visible extras is rising. Established premium OEMs benefit from the rising purchasing power, as do producers of the latest hip low-price models and innovative suppliers who encourage customers to upgrade their vehicles. For Chinese and Indian OEMs, Brazil is another territory to be conquered in their global campaigns – by the end of this decade, they could achieve a market share of around 10%.

According to calculations by Roland Berger Strategy Consultants, car sales in Brazil could double between 2010 and 2020 to 6.6 million vehicles; production may rise by 3.6 million cars (2010) to 5.5 million. As early as 2015, Brazil could overtake Japan to become the world's third largest car market after China and the US. Growth of 8% per year in commercial vehicles between now and 2018 is also possible.

Download: http://www.rolandberger.com/media/publications/2011-09-20-rbsc-pub-Is_Brazil_a_car_paradise.html

Global Automotive Supplier Study 2011



The worldwide automotive supplier industry is currently booming with average profit margins of 6.2% – higher even than their pre-crisis levels.

However, financial performance of suppliers differs heavily depending on headquarter region, company size and product focus.

FAMOUS CARS

Mercedes-Benz 280 SE 3.5 Coupe

W111 was the chassis code given by Mercedes-Benz to its top-range vehicles. These included its 4-door sedans, produced from 1959 to 1968, and its 2-door coupes and roadsters, manufactured from 1961 to 1971. In 1961, production of the W111 220 SE Coupe began. This Coupe was the last Mercedes-Benz to be made largely by hand. This also explains why the Coupe's price was nearly twice that of the sedan. To mark the crowning point of the series, the 280 SE 3.5 Coupe was introduced in 1971, which was also the only year it was produced – only 3,270 were built (and many of those were converted into roadsters). The combination of horsepower – 200-horsepower V8 engine – and luxury make this "Gentleman's Express" highly sought after by collectors today. The car shown here was sold by the Frankfurt Mercedes dealership in 1971 and subsequently enjoyed the mild climate of the south of France. In 2008, one of our colleagues picked it up and, together with the Mercedes Sindelfingen plant's apprentice workshop, carefully restored the vintage vehicle. Special attention was paid to reliability and preserving the car's special patina. Since then, the Coupe has been used for many family weekend outings and even a big tour of Europe.

BOOKS & STUDIES

> European suppliers achieved an EBITmargin of almost 7%, while North American and Japanese suppliers remain below global average

> Small and medium-sized suppliers have significantly improved their profitability compared to pre-crisis levels

> Chassis focused suppliers achieved the highest profitability, while Interior and Electric suppliers remain below average

Besides keeping profitability at a high level and ensuring real global delivery capability, suppliers need to put an even stronger focus on product innovation. Only suppliers who can differentiate themselves from competition via superior product functionality will be able to sustainably achieve EBIT margins in the range of 6% and above. Most other suppliers will get further pushed into the commodity corner, where their profit will be locked-in at a 3-4% level.

Download: http://www.rolandberger.com/media/publications/2011-09-12-rbsc-pub-Global_Automotive_Supplier_Study_2011.html

Global Vehicle LiB Market Study

The worldwide market for Li-ion batteries for electric vehicles has taken off. It will reach almost USD 9 billion by 2015, and may even exceed USD 50 billion by 2020 in the best case scenario.

This growth will, however, be accompanied by massive overcapacity. Over the next few years, we will see Li-ion battery production exceeding demand by more than twofold. Market consolidation will result.

The five frontrunners – AESC, LG Chem, Panasonic/Sanyo, A123 and SB LiMotive – can, between them, be expected to control almost 80% of the market by 2015.

These are the key findings of the study on the development of the global market for lithium-ion batteries in cars, light and heavy commercial vehicles as well as buses with hybrid and electric drive systems.

Order free of charge: http://www.rolandberger.com/media/publications/2011-09-06-rbsc-pub-Global_Vehicle_LiB_Market_Study.html

THE RARE EARTH CHALLENGE

How to react and what the expectations for the future are

As a result of China's monopoly position the prices for the 17 elements known as "rare earths" have dramatically increased. High-tech companies, particularly in the automotive industry and in renewable energies, are hard hit by this development.

Roland Berger has therefore conducted a new study to examine what is behind this development and suggest possible solutions to the rare earth challenge – to help the companies affected secure their supply and competitiveness.

The challenge – Rare earth prices are skyrocketing

The term "rare earths" is an umbrella term covering 17 elements of the Periodic Table. A distinction is made between "heavy" (e.g. dysprosium) and "light" rare earth elements (e.g. neodymium). Heavy rare earths make up a much lower proportion of most underground deposits than light rare earths. Products based on rare earths are becoming increasingly important as a result of the trend toward renewable energies, the introduction of electric drives in vehicles, and efficient advances in other technologies.

Given that "rare earths" are available all over the world and in that sense are not "rare" at all, they are rare in the sense that currently there are a few number of exploration site world wide. On this background, the world's reserves of rare earths are estimated at approximately 114 million metric tons, but only 0.125 million tons are currently being mined every year. Furthermore, new deposits are regularly being discovered (e.g. one containing up to 100 million tons in June 2011 in the Pacific). The problem is that mining is not economically feasible everywhere and can be extremely costly. Mines have therefore been closed all over the world in recent years. Demand and supply have diverged and China took the lead in supply and pricing.

The amount of rare earths used by many companies (expressed as a percentage of product input) has risen sharply in recent years; prices have exploded. The massive rise in prices is driving up the global market volume of rare earths to an expected EUR 27 billion by the end of 2011. The dramatic trend in prices is exemplified by the price increases for important raw materials used in magnets (neodymium and dysprosium).

Figure 1: Definition of rare earths

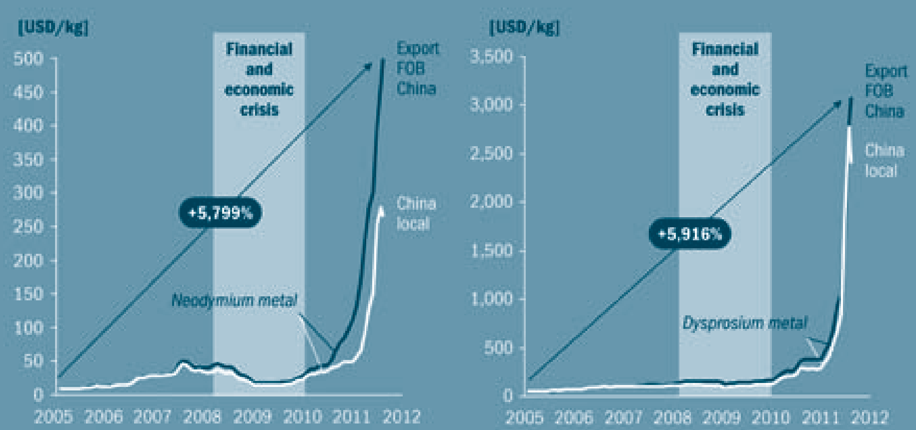
RARE EARTHS

DESCRIPTION

- Umbrella term for 17 elements, e.g. neodymium and dysprosium
- REs are not really "rare", but evenly spread over the Earth's crust. Only economically exploitable reserves are rare
- REs can only be extracted jointly, so the volume of individual REs thus depends on the composition of the natural mineral deposit
- REs are used in numerous high-tech applications, e.g.
  - Permanent magnets used in e-motors or wind-turbine generators
  - Phosphors used in LEDs, lighting or flat screens
  - Automotive catalysts or batteries

Source: Roland Berger Research

Figure 2: Price development of neodymium and dysprosium– 01/05 to 08/11



Source: Asian Metal

The export price of neodymium has shot up by a factor of 10 over the last 1½ years; that of dysprosium has risen 15-fold. This is having a serious impact on several branches of industry, especially in the pioneering field of alternative energies and new vehicle drives.

Rare earths are used primarily by the automotive industry in the production of electric engines, as well as in the field of renewable energies for building wind turbines. The production of magnets – e.g. for electric motors for cars or wind-turbine generators – accounts for a large proportion (about 20%) of the approximately 137,000 tons of rare earths expected to be used by industry in 2011. The largest share (about 30%) is used in glass and ceramics production. Rare earths are also needed for catalysts (19%), metal alloys and batteries (18%), as well as in the lighting industry, e.g. for LED bulbs (7%).

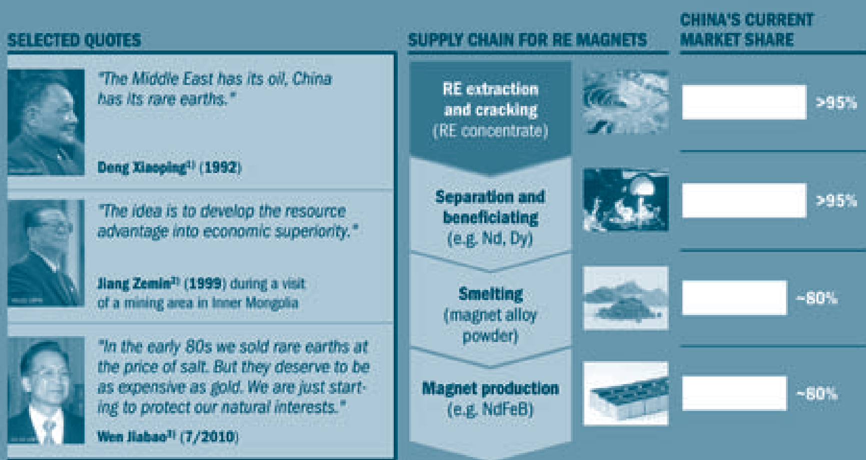
The price explosion in rare earths is primarily due to the growing demand from industry and to China's monopoly as the main supplier of these metals. China controls the global market, mining and processing 95% of the current rare earths explorations world-wide. Other producers such as Russia or South America currently play only a minor role.

Mines have been closed worldwide over the last few decades, in some cases for environmental reasons. China, too, has increasingly been shutting rare earth mines, thus adding to the shortages in the market. China has long since recognized the strategic relevance of rare earths (see Figure 3). That this strategic goal is still being pursued is demonstrated by the current one-month closure of China's biggest state-owned enterprise (which has a world market share of 47%). The aim here is to support prices, which had been indicating a change of trend after countermeasures had been taken by buyers.

China largely controls not only most rare earth mines, but also the further processing of rare earths. Take the example of magnets: China dominates all stages in the value chain – from the mining of the raw material to the production of the end product, making it very difficult for other countries to build up a competitive industry.

THE RARE EARTH CHALLENGE

Figure 3: China has recognized the strategic importance of rare earths



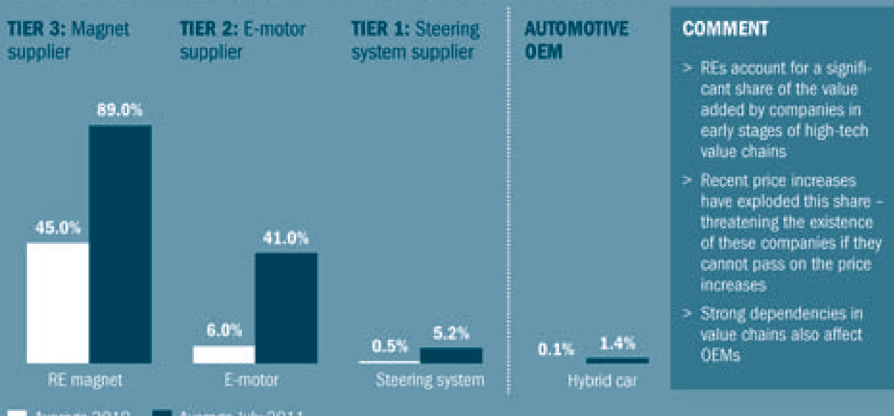
1) De facto leader of the PR China 1979-1997 2) President of the PR China 1993-2003
3) Premier of the State Council of the PR China, 2003-today; has a Ph.D. in geology
Source: Roland Berger Research

In the automotive industry in particular, the price increases are having a major impact on the entire value chain, causing major problems, especially for components suppliers, whose products need large amounts of rare earths (e.g. for electric motors); even these companies' existence is under threat.

While the proportional amount of rare earths used in an electric-motor magnet has nearly doubled, the amount used in an electric motor has increased by a factor of 6 (see Figure 4).

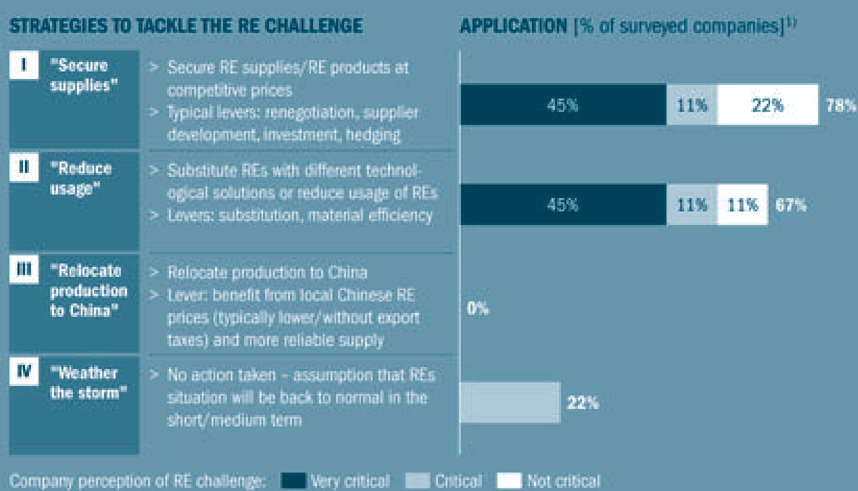
Figure 4: Price increases caused by rare earths in the automotive value chain

Example: Automotive supply chain – RE[1] share of total value added [%]



1) Neodymium and dysprosium (used for permanent magnets)
Source: DIW; Roland Berger

Figure 5: Strategies for becoming less dependent on rare earths



1) More than one strategy per company possible

Source: Expert interviews; Roland Berger

This means that the percentage of the price of a hybrid vehicle accounted for by rare earths has risen by a factor of 14, adding to the challenge of making hybrid and electric vehicles more competitive and putting further strain on the value chain.

The reaction – Four strategies have been identified

Given the steeply rising prices and scarce resources, affected companies are faced with the challenge of developing the right strategy to enable them to remain competitive. The issue has long since had the undivided attention of companies and will lead to considerable falls in profits for the companies affected in 2011 and subsequent years. Figure 5 shows the different strategies used by companies that are impacted by the price increases. It turns out that there is not one single solution; rather, a set of actions is needed to limit price increases and ensure security of supply. It is more likely to be an endurance race than a sprint.

One priority is therefore to define and implement comprehensive short-, medium- and long-term actions.

The following approaches must therefore be implemented in parallel and given the highest priority.

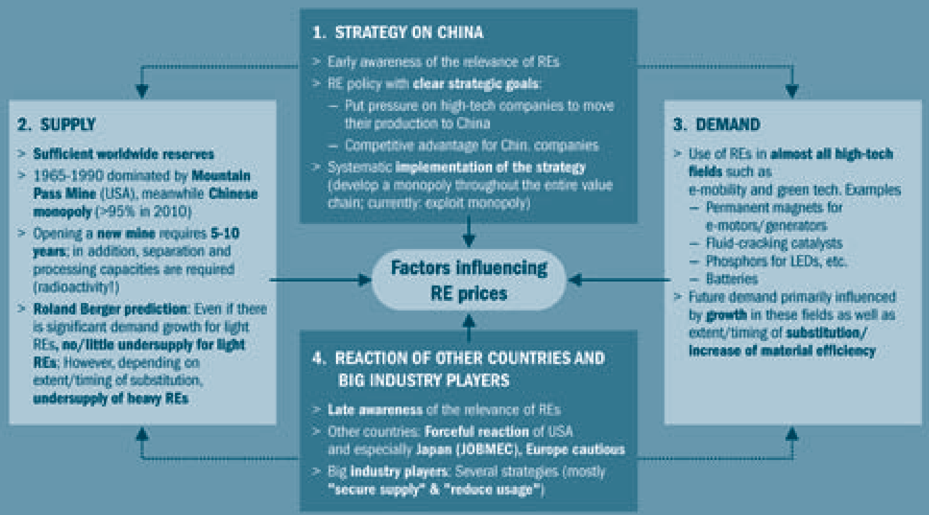
For example, immediate technical action needs to be taken in the context of the intended product specification to reduce the consumption of rare earths, e.g. by cutting its percentage share of the final product.

In addition, studies must be conducted to determine whether the product requiring rare earths can be feasibly substituted by other technologies (e.g. ferrite magnets in electric motors) wherever it makes sense technically, timewise and economically.

This also implies a review of products that are still at the development stage. Second, the rare earth supply chains and sourcing strategies need to be scrutinized and, where possible, put on a broader basis in the medium to long term. However, price negotiations are often made more difficult by middlemen who immediately pass on the price increases, threatening the buyer with the suspension of deliveries or insolvency.

One alternative is to seek and develop new sources of supply. A long-term and capital-intensive approach is to buy a stake in a mine or in a company that delivers rare earth raw materials or finished products. Siemens, for example, has formed a joint venture with the Australian Lynas Corp. to build up its own value chain from the mine to the magnet.

Figure 6: Four factors affect the price development of rare earths



Source: Expert interviews; Roland Berger

Another possibility is to shift production to China to take advantage of the lower local commodity prices there; this is now being implemented in isolated cases by Hitachi, for example (who have announced the production of neodymium magnets in China from 2023).

Politicians should also take care of this essential problem. All the political power of federal governments should be applied in negotiations with the respective countries to secure the stability of access and prices for the affected commodities. For example, the commodity partnership recently signed by German Chancellor Angela Merkel in Mongolia is certainly a step in the right direction.

The outlook – Factors in four dimensions will influence the price development

The future price development of rare earths will primarily depend on four factors: China strategy, mining output, demand, and the policy reactions of the other countries affected. Furthermore, individual rare earths must be assessed differently as regards future price developments, because heavy rare earths are much less common in mine deposits than light rare earths.

In order to have a sound foundation on which to derive future prices, this study used the scenario technique. More than 20 factors were evaluated – ranging from the opening of new mines, the trend in global demand, the political development in China and the rest of the world – and ultimately fed into price forecasts up to 2016.

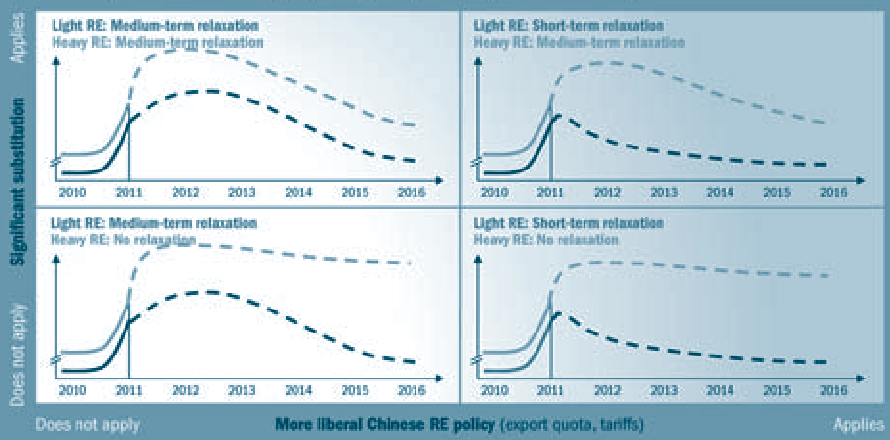
The political factor of China is a dominant factor in forecasting the price of rare earths. The price development of rare earths will largely depend on China's strategy on the liberalization of commodity policy. A considerable number of new rare earth mines are currently planned in many countries. However, it takes 5 to 10 years before a mine can open and start operating.

Although the supply and price situation will ease more quickly for light rare earths because of the availability of more deposits, the situation for heavy rare earths looks set to remain critical for longer.

The demand for rare earths will increase further as a result of the trend toward efficient and environmentally friendly technologies. However, the search for substitute solutions and more efficient ways of using rare earths will slow the demand curve down to some extent.

Figure 7: Forecast of the future development of rare earth price

Schematic price scenarios for light/heavy REs (metal export FOB China)



Color gradient: Increasing uncertainty
Source: Expert interviews, Roland Berger

Now that the politicians have taken up the issue (albeit very late), it can be expected to remain on the agenda in the long term. The industrialized countries' dependence on rare earths has been recognized by the governments, and this will lead to more global alliances. The price developments of light and heavy rare earths can be deduced as illustrated in figure 7 on the basis of these considerations. What is clear in all scenarios is that the prices for light rare earths will ease in the medium term.

After another difficult phase in 2012, a slight easing of the situation in the medium term is likely, even in the case of heavy rare earths and even if China remains very conservative in its policy on raw materials.

Conclusion

The pricing and availability of rare earths will remain a challenge, especially for the automotive industry, that will have to be overcome on a global scale in the medium and long term. The price and supply situation can only be expected to generally ease in the medium to long term. Until then the task will be to find solutions within the value chain to offset rising prices that cannot be borne by the hard-hit suppliers.

Dr. Thomas Schlick
Partner
Roland Berger Strategy Consultants, Frankfurt
thomas_schlick@de.rolandberger.com

Dirk Kohlen
Principal
Roland Berger Strategy Consultants, Düsseldorf
dirk_kohlen@de.rolandberger.com

GROWTH STRATEGIES IN THE GLOBAL CONSTRUCTION EQUIPMENT MARKET

Capturing growth markets in BRIC and beyond

What is driving the construction equipment industry of today? Which are the key markets to invest in and what products and services will become important in the next decade? The Roland Berger study "Growth strategies in the global construction equipment market – Capturing growth markets in BRIC and beyond" has addressed these questions through a comprehensive survey on the industry's way forward. 50 senior executives and industry experts from leading construction equipment players worldwide were interviewed. In order to obtain an in-depth view of the market, we identified key growth opportunities, important levers and market challenges in the industry.

Objectives

The study aims to shed light on the future growth perspectives within the global markets for construction machinery. These markets have become a moving environment with increasing dynamism, and the scope has grown to be global. The BRIC markets, in particular, contribute to this dynamism with their strong growth rates but fields of growth can be found in other emerging markets as well.

The objective of this study is to take a snapshot of today's situation, evaluate market perspectives regarding growth potential and obtain detailed insights into the developments in the construction equipment industry. The key questions answered by the interviewed experts focus on markets, products and services, challenges and growth options.

Key findings

> BRIC economies continue to be the major growth markets for construction equipment due to substantial investments in roads, ports and other infrastructure. However, other emerging regions such as Africa, the Middle East and ASEAN are increasingly attractive for construction equipment companies

> Competition is increasing in the whole industry, along the entire value chain, especially in TRIAD markets – Market consolidation is a key result

> Leasing is gaining importance over other financing options, especially loans – However, strong regional differences can be observed

> Comprehensive after-market services enjoy a continuously high level of importance – Substantial investments are being currently made to expand service locations[1)]

> Key market challenges are: emissions regulations, import duties/restrictions and pressure from emerging market competitors

Current situation/motivation

The market environment for construction equipment (CE) is currently undergoing significant changes as it is becoming an increasingly global market environment. Not only is globalization still ongoing and emerging markets are on the rise, but competition is steadily increasing and demands on products and services are changing. Globalization has led to ongoing market consolidation, as also indicated by recent acquisitions in the market.

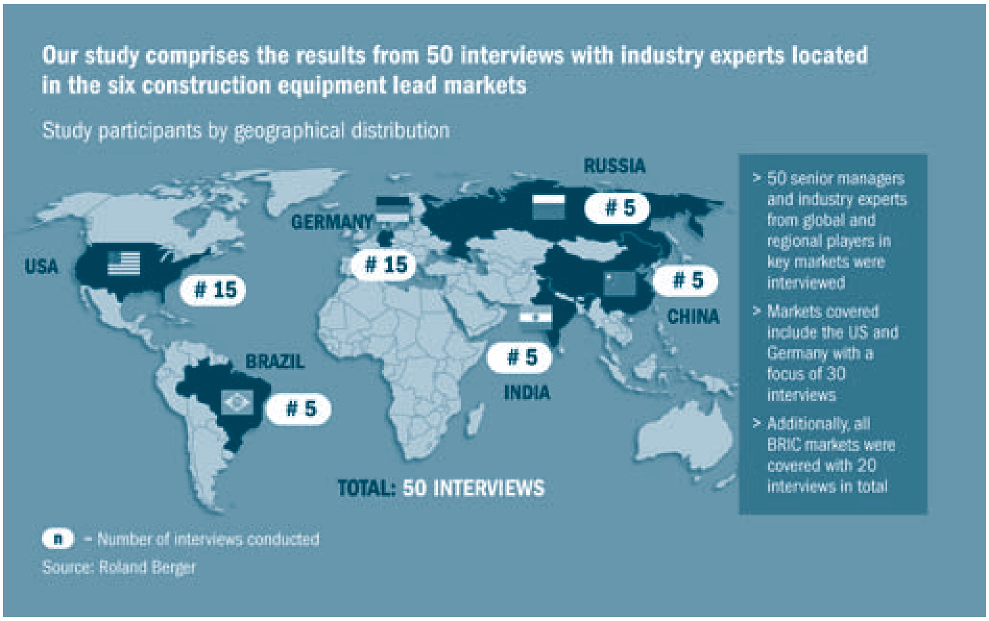
However, to tackle these challenges, there is no one-size-fits-all solution. Global construction markets are subject to regional growth patterns and market challenges, making it necessary to apply market-specific, tailored solutions.

Study approach

To capture the ongoing changes and trends, we conducted interviews with 50 senior management and industry experts along the entire value chain, ranging from dealers to manufacturers and suppliers. With input from six construction equipment lead markets (USA, Germany, Brazil, Russia, India, China), this study has a truly global scope. The interviews focused on identifying key growth opportunities, important levers and market challenges in the global construction equipment industry.

1) By companies such as Caterpillar, Komatsu, Terex

GROWTH STRATEGIES IN THE GLOBAL CONSTRUCTION EQUIPMENT MARKET



The following four key questions were addressed in the survey:

1. What are the most attractive markets, especially with regard to growth opportunities?

2. Which product offerings are most attractive, both in terms of core construction equipment and financial/after-market services?

3. What are today's key market challenges?

4. Which growth options are companies considering today to extend their outreach both in terms of markets and products?

Findings

1. Attractiveness of BRIC and other emerging markets

The BRIC markets continue to be the industry's major growth focus. Compared to the TRIAD markets, BRIC are rated significantly higher, due to their substantial investments in roads, ports and other infrastructure. Brazil is rated most attractive, mostly because of its continuing economic growth and political stability. China and India are growing markets dominated by local joint ventures developing at a fast pace and thereby providing room for new market entrants.

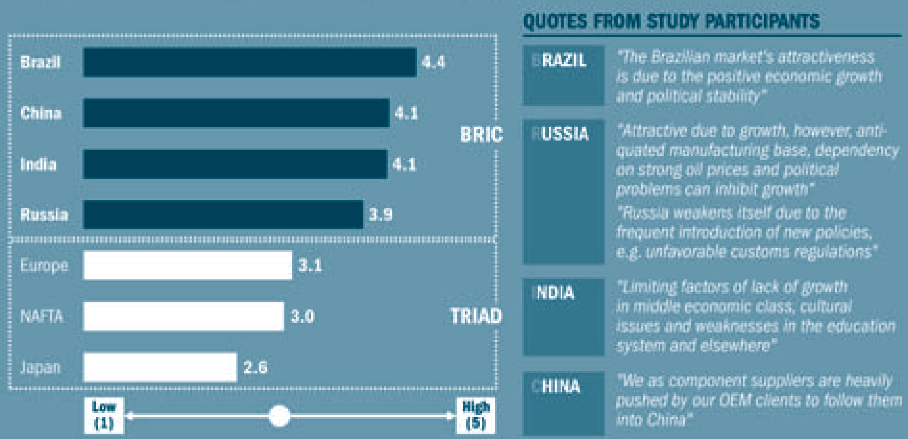
Beyond BRIC, other emerging regions such as Africa (29% of respondents agreed) and Middle East (25%) are becoming increasingly attractive, with major investments planned and various construction OEMs about to enter these markets. Companies with major investment projects value these markets above all, with South Africa, Algeria, Egypt, Morocco and Libya in the lead. Around 15% of company representatives surveyed thought ASEAN (the Association of Southeast Asian Nations) and South American countries such as Argentina, Uruguay and Chile were also very attractive when it came to expanding their areas of business.

2. Product requirements – Service and financing are in demand

Of all construction machinery, it is excavators and wheel loaders that are most in demand (excavators are increasingly becoming multifunctional machines). Next in demand are backhoe loaders, skid steer loaders and motor graders. As far as technology trends are concerned, what customers really want is to be able to connect construction equipment to more control modules and use GPS applications (connectivity). At the same time, customers/CE operators also want real-time monitoring functions to check that machines are running smoothly and rectify faults fast.

BRIC countries are considered the most attractive growth regions, rating significantly better than TRIAD countries

Rating of attractiveness regarding growth potential by key regions

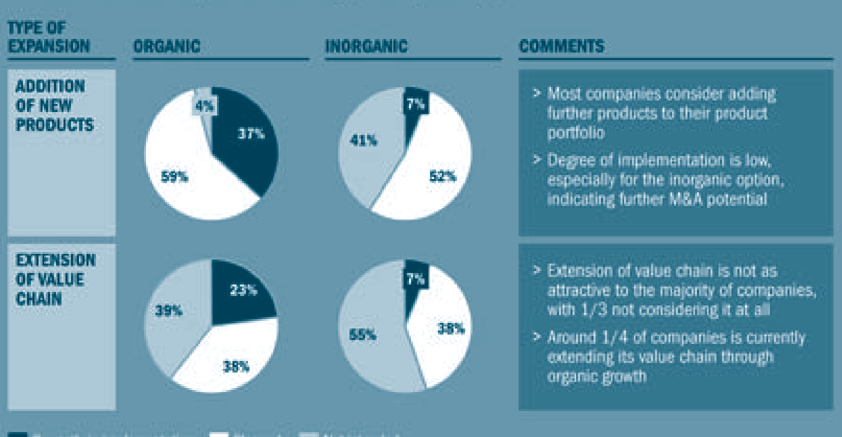


Source: Roland Berger

Low-emission technologies such as hybrid drives are also becoming ever more important; but the decisive success factors are still quality, price and availability of spare parts – with clear regional differences. While the US, Germany and China rank product quality first, price is very important in Brazil. Russian and Indian customers are most concerned with being able to quickly get hold of spare parts. Another trend in the construction equipment industry is the rising demand for service packages. Construction equipment makers are investing more and more in on-site service points because customers increasingly want servicing

Product portfolio expansion is considered a key priority with room for M&A deals, whereas pure extension of value chain is less favored

Consideration and implementation of growth options [%]



Source: Roland Berger

and assistance with equipment maintenance to be available 24/7. Financial and insurance services also appear to offer additional growth potential.

3. Regulation and competition are today's key market challenges with major regional differences

The main market challenges today are that markets are still highly regulated and competitive pressure is fierce. However, the growth requirements and market challenges vary enormously between different geographical markets: while growth enablers in the BRIC countries are generally tightly linked to governmental support and market regulation, the TRIAD markets (US, Europe, Japan) are mostly saturated, with a highly competitive landscape. Strong regional differences also exist with regard to key market challenges: Most prominent in the EU and the US are emissions regulations, while import duties or restrictions are the most important growth impediments in Brazil, Russia and China. Pressure from emerging market competitors can be felt heavily across all BRIC countries.

4. High competitive pressure is addressed with organic and inorganic growth options

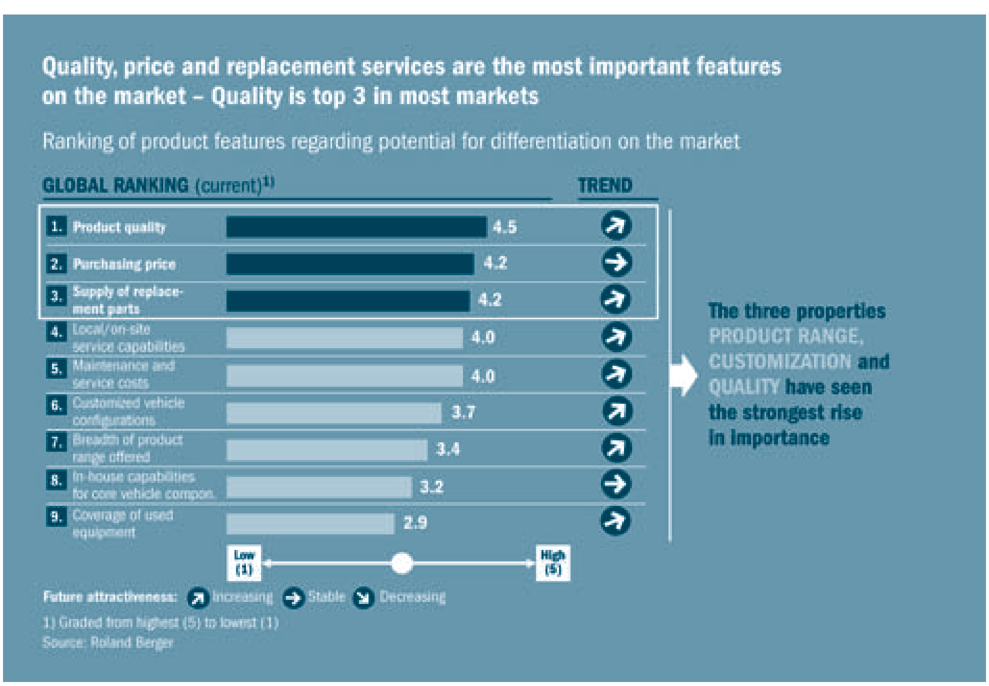
To tackle the growth opportunities and to overcome challenges, all players are considering organic growth in new markets.

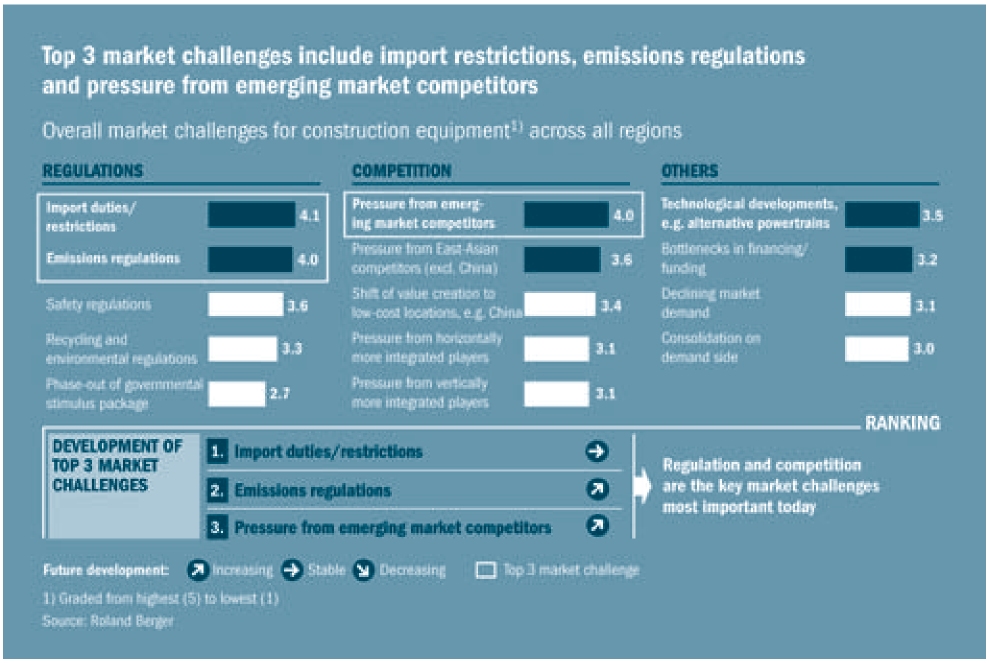
Another high priority for market players are M&A activities. The interviews show that two-thirds of companies are very interested in acquiring companies in new markets. The recent acquisition of Bucyrus by Caterpillar and Demag by Terex are clear examples of this trend. And 96% of those surveyed are planning to add new products to their portfolios to keep growing. M&A transactions are particularly interesting when it comes to adding products, as they offer companies a way to quickly integrate new solutions into their existing product portfolios.

Outlook: Levers to be addressed

To capture growth opportunities in BRIC and beyond, key levers to ensure competitive positioning need to be addressed globally:

> Having seen the growth opportunities available in the BRIC countries and being aware of the market chances in other emerging markets such as Africa, the Middle East and ASEAN, a concise market strategy needs to be defined. As many market players are already reaching out to new markets, the window of opportunity needs to be used in order to tackle these markets. However, besides diligent market selection, a targeted and country-specific approach has to be chosen to ensure a competitive edge.





> In terms of products, excavators and backhoe loaders will continue to top the most attractive product segments. However, a strategy leveraging engine and transmission as differentiators can help focus company strengths. In addition, the ongoing global trend of increasing financial and after-market services needs to be looked at. Though regional specifics need to be considered, construction equipment customers around the world are increasingly valuing these services.

> Addressing the increasingly competitive situation, companies will have to optimize their product offerings based on harmonized vehicle platforms, but also ensure compliance with regional market specifics (emissions, prices). However, companies should also actively participate in the ongoing market consolidation through M&A activities and joint ventures.

> To define a suitable growth strategy, companies need to incorporate all key construction equipment growth priorities. The key value proposition and product/service portfolio must be clearly defined as the foundation for entrepreneurial action. Country targeting and footprint design need to be established and the core competencies and differentiating technologies defined in order to zero in the company's growth strategy on the changing market environment.

Norbert Dressler
Partner
Roland Berger Strategy Consultants, Stuttgart
norbert_dressler@de.rolandberger.com

András Tóth
Project Manager
Roland Berger Strategy Consultants, Munich
andras_toth@de.rolandberger.com

Peter Boekels
Consultant
Roland Berger Strategy Consultants, Munich
peter_boekels@de.rolandberger.com

BENELUX
René Seyger
Phone +31 (20) 7960-620
rene_seyger@nl.rolandberger.com

CEE
Rupert Petry
Phone +43 (1) 53602-100
rupert_petry@at.rolandberger.com

CHINA
Jun Shen
Phone +86 (21) 52986677-874
jun_shen@cn.rolandberger.com

CZECH REPUBLIC
Roland Zsilinszky
Phone: +420 (2) 10219524
roland_zsilinszky@cz. rolandberger.com

FRANCE
Max Blanchet
Phone +33 (1) 53670-907
max_blanchet@fr.rolandberger.com

Jacques Radé
Phone +33 (1) 53670-366
jacques_rade@fr.rolandberger.com

GERMANY
Ralf Kalmbach
Phone +49 (89) 9230-8669
ralf_kalmbach@de.rolandberger.com

Ralf Landmann
Phone +49 (69) 29924-6300
ralf_landmann@de.rolandberger.com

Marcus Berret
Phone +49 (711) 3275-7419
marcus_berret@de.rolandberger.com

Dr. Wolfgang Bernhart
Phone +49 (711) 3275-7421
wolfgang_bernhart@de.rolandberger.com

Marc Winterhoff
Phone: +49 (69) 29924-6262
marc_winterhoff@de.rolandberger.com

Philipp Grosse Kleimann
Phone +49 (89) 9230-8718
philipp_grossekleimann@de.rolandberger.com

Dr. Thomas Schlick
Phone +49 (69) 29924-6202
thomas_schlick@de.rolandberger.com

Norbert Dressler
Phone: +49 (711) 3275-7420
norbert_dressler@de.rolandberger.com

IBERIA
Christoph Beseler
Phone +34 (91) 590 3-141
christoph_beseler@es.rolandberger.com

INDIA
Wilfried Aulbur
Phone +49 (89) 9230-8282
wilfried_aulbur@de.rolandberger.com

ITALY
Roberto Crapelli
Phone +39 (02) 29501-235
roberto_crapelli@it.rolandberger.com

Andrea Marinoni
Phone +39 (02) 29501-296
andrea_marinoni@it.rolandberger.com

JAPAN
Ken Mori
Phone +81 (3) 35876-724
ken_mori@jp.rolandberger.com

Satoshi Nagashima
Phone +81 (3) 358 76-683
satoshi_nagashima@jp.rolandberger.com

Masugi Kaminaga
Phone +81 (3) 35876-365
masugi_kaminaga@jp.rolandberger.com

MIDDLE EAST
Michael Wette
Phone: +973 (17) 5679-51
michael_wette@bh.rolandberger.com

NORTH AMERICA
Juergen Reers
Phone +1 (248) 729-5111
juergen_reers@us.rolandberger.com

Antonio Benecchi
Phone +1 (248) 729-5125
antonio_benecchi@us.rolandberger.com

RUSSIA
Uwe Kumm
Phone +49 (30) 399 27-3534
uwe_kumm@de.rolandberger.com

Boris Firsov
Phone +7 (495) 287 92 46
boris_firsov@ru.rolandberger.com

SOUTH AMERICA
Thomas Kunze
Phone +55 (11) 3046 7111
thomas_kunze@br.rolandberger.com

Stephan Keese
Phone +55 (11) 3046 7111
stephan_keese@de.rolandberger.com

SCANDINAVIA
Per I. Nilsson
Phone: +46 31 75755-14
per-i_nilsson@se.rolandberger.com

Per M. Nilsson
Phone: +46 31 75755-10
per-m_nilsson@se.rolandberger.com

TURKEY
Erkut Uludag
Phone +90 (212) 3700066-0
erkut_uludag@tr.rolandberger.com

Amsterdam
Barcelona
Beirut
Beijing
Berlin
Brussels
Bucharest
Budapest
Casablanca
Chicago
Detroit
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Dubai
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