Winning vs Competing

By

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In 2005, PSA (Peugeot-Citroën) sold nine times more cars than Dongfeng and was worth six times more on the stock exchange. At that time, the Chinese automotive market represented 9% of the global market. Eight years later, it has grown five times and is the largest market worldwide, two times larger than the North American market (in volume). It represents a quarter of the global market, and will represent more than a third by 2020 (see figure 1). Today, Dongfeng sells 12% more cars than PSA, and has a market capitalisation three times larger. The value of PSA is a third of what it used to be, whereas that of Dongfeng has quintupled, driven by his growth.

In 2006, when Mittal took control of Arcelor, a French minister commented that the Indian group had failed to understand the grammar of French business. In fact, it appears that the opposite has taken place. Numerous French and European companies fail to understand the global rules of business. The different growth that competitors experience always leads to inversion of value: between 2002 and 2006 Mittal's value increased from 10% to around 100% of Arcelor's value. Only leaders who grow and win market share will create value for their shareholders, will generate financial leeway to consolidate their industry and stay independent in the long term.

But where should they look for this growth? For large groups engaged in a core market, it can only be found in Emerging Countries.

Over the next ten years, growth from these countries will constitute 55% of global growth. Today, the middle classes[(1)] of India and China number 260 million individuals (compared to 450 in Europe and 340 in North America). This is projected to grow to 1,5 billion by 2020, and 3 billion by 2030 (whereas the middle classes of Europe and North America will not grow). The base of business for the last 50 years, on which the large Western groups have prospered, is moving. The leaders of tomorrow will be groups from China, India, etc. or Western groups who have established a leadership in these geographies.

Among the 50 global groups who have seen the strongest market capitalisation growth during the last ten years, more than half either come from Emerging Countries or are Western groups who have developed a large part of their revenues from these countries. Those minor Chinese players who ten years ago were targets for acquisition or partnerships are now major competitors with growing financial means. SAIC, the leading Chinese car manufacturer has a market capitalisation of 40% of General Motors and 15% of Toyota. Considering these companies' growth and profit dynamics, by 2020, it will be worth 100% of General motors and 30% of Toyota.

Many western groups invested early and are today leaders in their market in China: Coca Cola, LVMH, Samsung, Nike, Schneider… But presence and precedence is not enough. In

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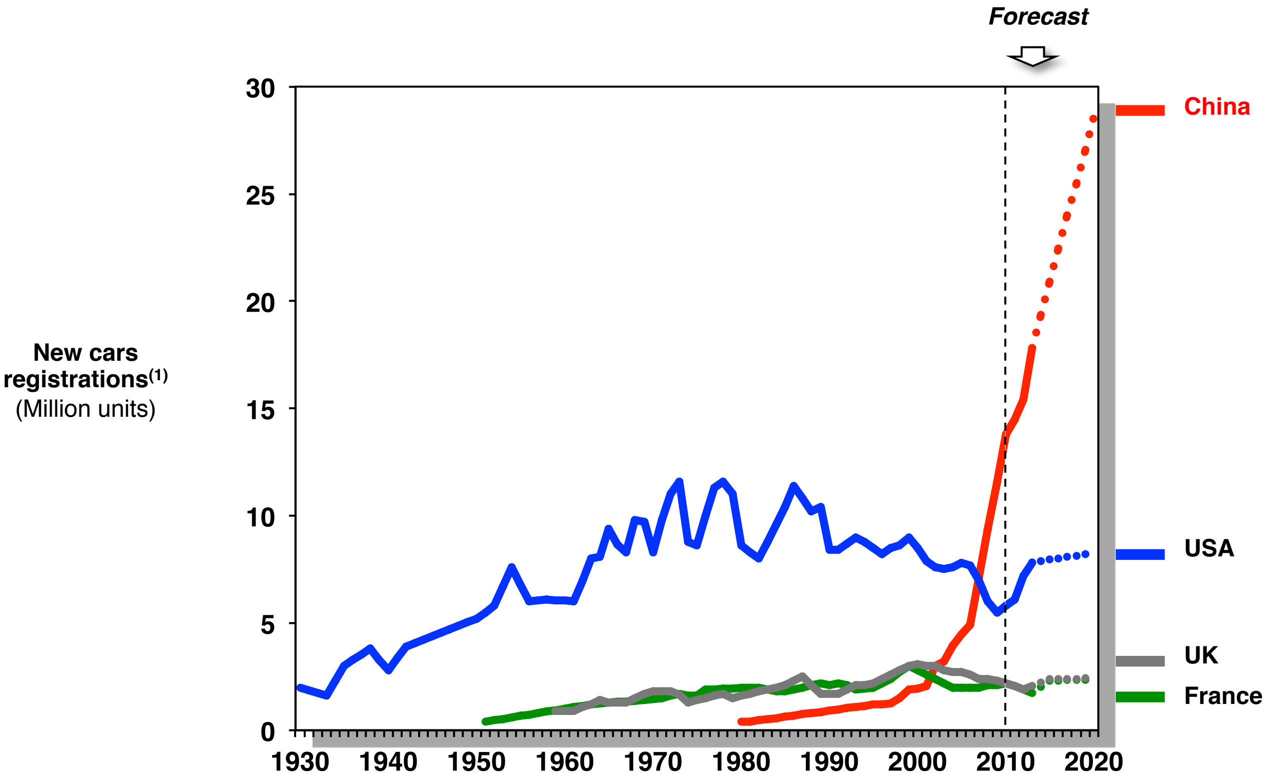
[(1)] Defined by purchasing power or everyday saving by person between 10 and 100 USD

- Table 1 -

New cars sales, in USA, UK, France and China
1930-2020



(1) Passenger cars (excluding trucks)
Sources: Estin & Co analyses

markets that grow at 20% to 30% a year[2], companies must grow at 30% to 40% a year in order to win market share. Therefore, these companies must commit to investing the required resources.

In 2002, the market share of PSA in the Chinese market was 8%; it has since fallen to 3%. Over the past ten years, while PSA has invested about 1,2 billion euros in China, Volkswagen has invested more than 10 billion. Volkswagen is now the market leader in China (in brand sales). The key strategic choice, above all, is about resources allocation.

By 2020, the leader of the Chinese automobile market will be three times larger than the leader of the American market. Volkswagen's profitability allows it to sustain necessary growth through adequate investments. That is not the case for PSA, unless additional capital is regularly raised. The majority of European groups are no longer able to keep up with the speed at which it is necessary to grow in China in order to remain among leaders.

On the other side, ambitions are clear, if not always realistic, and the means available. The Chinese Development Plan 2011-2020 forecasts that Chinese state enterprises will realise at least 30% of their revenue, representing 4 000 Billion euros, outside of China. The number of companies such as Arcelor, Volvo, … losing their independence, can only increase in the next years.

In 1931, André Citroën launched the "Yellow Cruise", sending his tracked vehicles on the "Silk Road" from West to East. In many markets, this continues to be possible… provided one starts on time and invests the necessary resources. Otherwise, this route will retake its historical sense.

Do industries and public authorities in Europe have in mind the scale of these world upheavals when they reason and do they give the means to act accordingly?

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Estin & Co is an international strategic consultancy firm based in Paris, London, Zürich, and Shanghai. The firm assists the boards of major European, North American and Asian groups in their growth strategies, and private equity funds in analysing and improving the value of their investments.

[2] Between 2002 and 2013, the Chinese automotive market grew at 29% per year

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