

SIMON • KUCHER & PARTNERS

Strategy & Marketing Consultants

**Amsterdam • Bonn • Boston • Cologne • Frankfurt • London
Luxembourg • Madrid • Milan • Moscow • Munich • New York
Paris • San Francisco • Tokyo • Vienna • Warsaw • Zurich**

Price wars kill: How aggressive moves will damage Russia's automotive industry

AEB Automotive Forum



Dr. Markus B. Hofer
Dmitry Sharovатов
Moscow, October 22, 2008

Moscow Office

Zemlaynoi Val 9

Moscow, Russia

Tel.: +7 495 967-9730, Fax: +7 495 967-9700

E-Mail: moscow@simon-kucher.com

Cologne Office

Gustav-Heinemann-Ufer 56

50968 Cologne, Germany

Tel: +49 221 36794-300, Fax: +49 221 36794-398

E-Mail: markus.hofer@simon-kucher.com

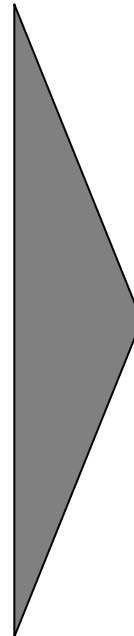
Internet: www.simon-kucher.com

Sales pressure leads to discount actions in Russia

For the first time in its history the automotive market in Russia is experiencing decreasing prices due to higher sales pressure.

Situation in the Russian automotive industry

- Due to **financial crisis**, banks are **stricter** in giving loans **to finance new cars**
- Additionally, **Russian customers hesitate** to buy new cars due to future uncertainty
- **High sales pressure** of some OEMs due to decreasing demand
 - Mitsubishi minus 25%
 - Volvo minus 35%
 - Ford minus 13%(September 08 compared to September 07)
- Financing a **rising volume of stored vehicles** compromises the liquidity of Russian car dealers



Discounts as one reaction to the crisis



Mitsubishi: Price decrease of 7% on average (2007- 2008)

Toyota and Renault plan similar actions like Mitsubishi



Mercedes gives a hidden rebate through a better exchange rate (32 EUR/RUR instead 35.60 EUR/RUR)

Nissan offers much lower base rates for their customers than the financial market

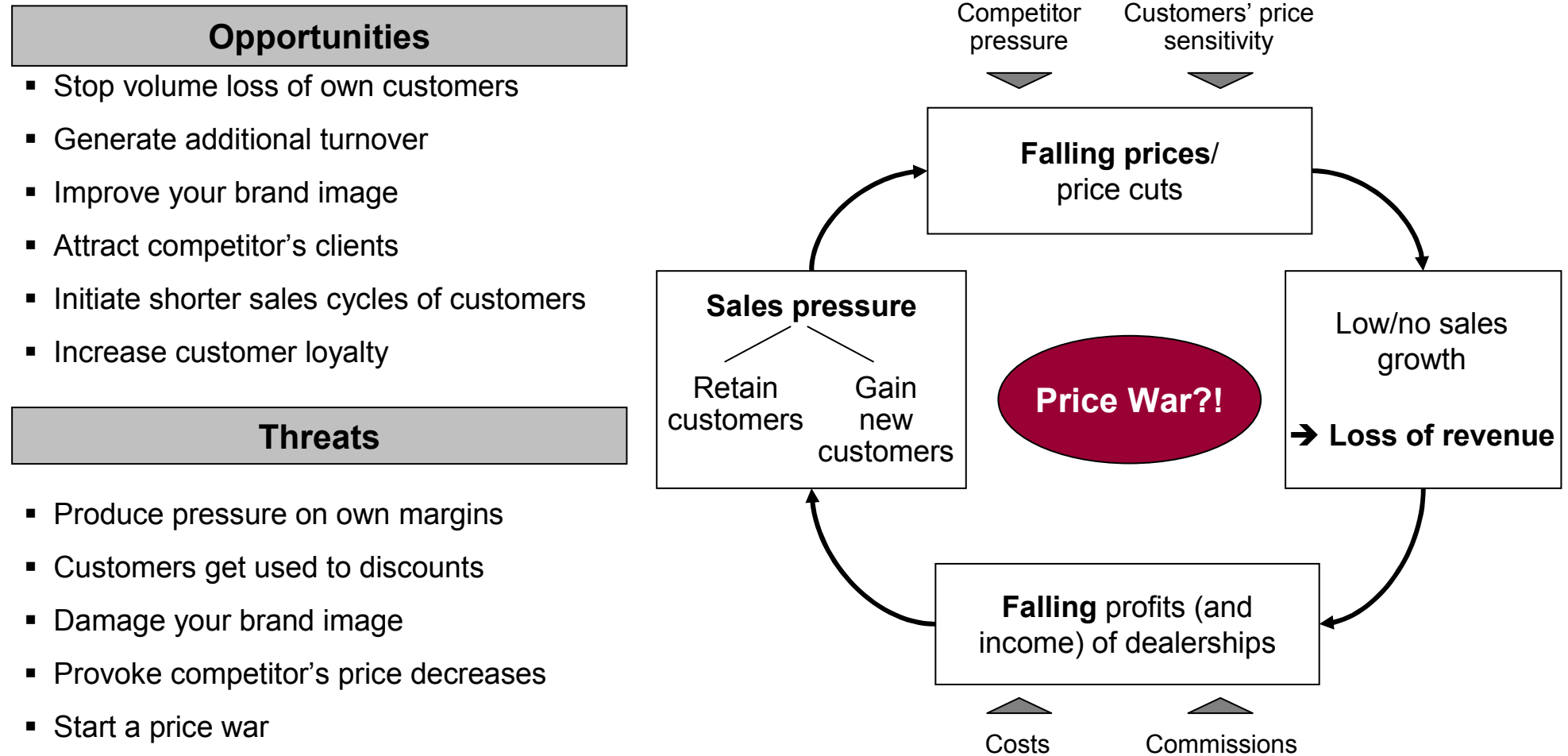


Source: AEB press release 8.10.2008 | kommersant.ru 17.10.2008 expert interviews

Source: Vedomosti, 13.10.2008

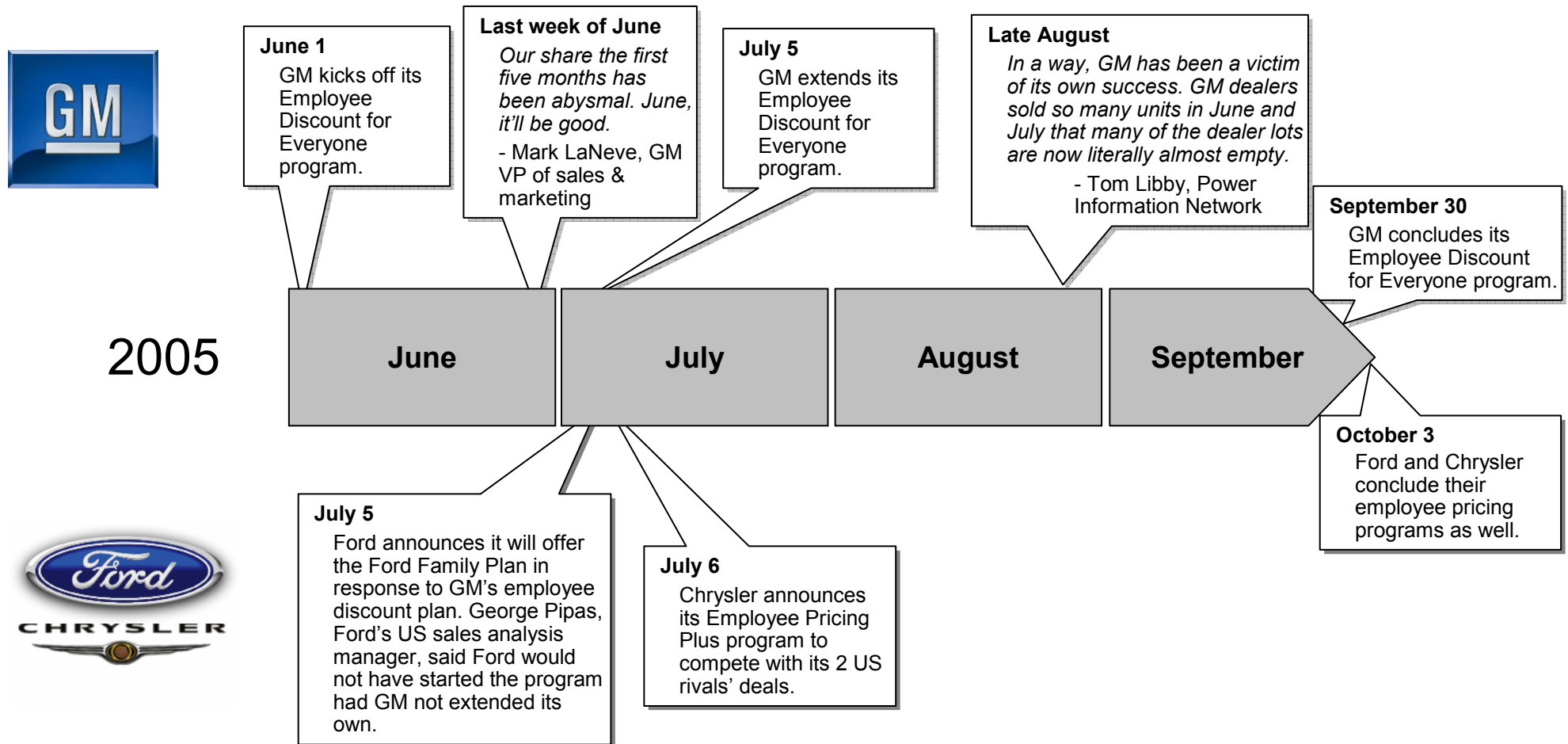
Vicious downward spiral: Prevent it by understanding your tradeoffs

Various opportunities and threats have to be traded off precisely by the OEMs before introducing a new price strategy and new customer discounts.



How a price war started in the USA

GM fueled the next round of the price war in the automotive industry in the USA by introducing its "Employee Discount for Everyone" program. Ford and Chrysler reacted with own discount programs.

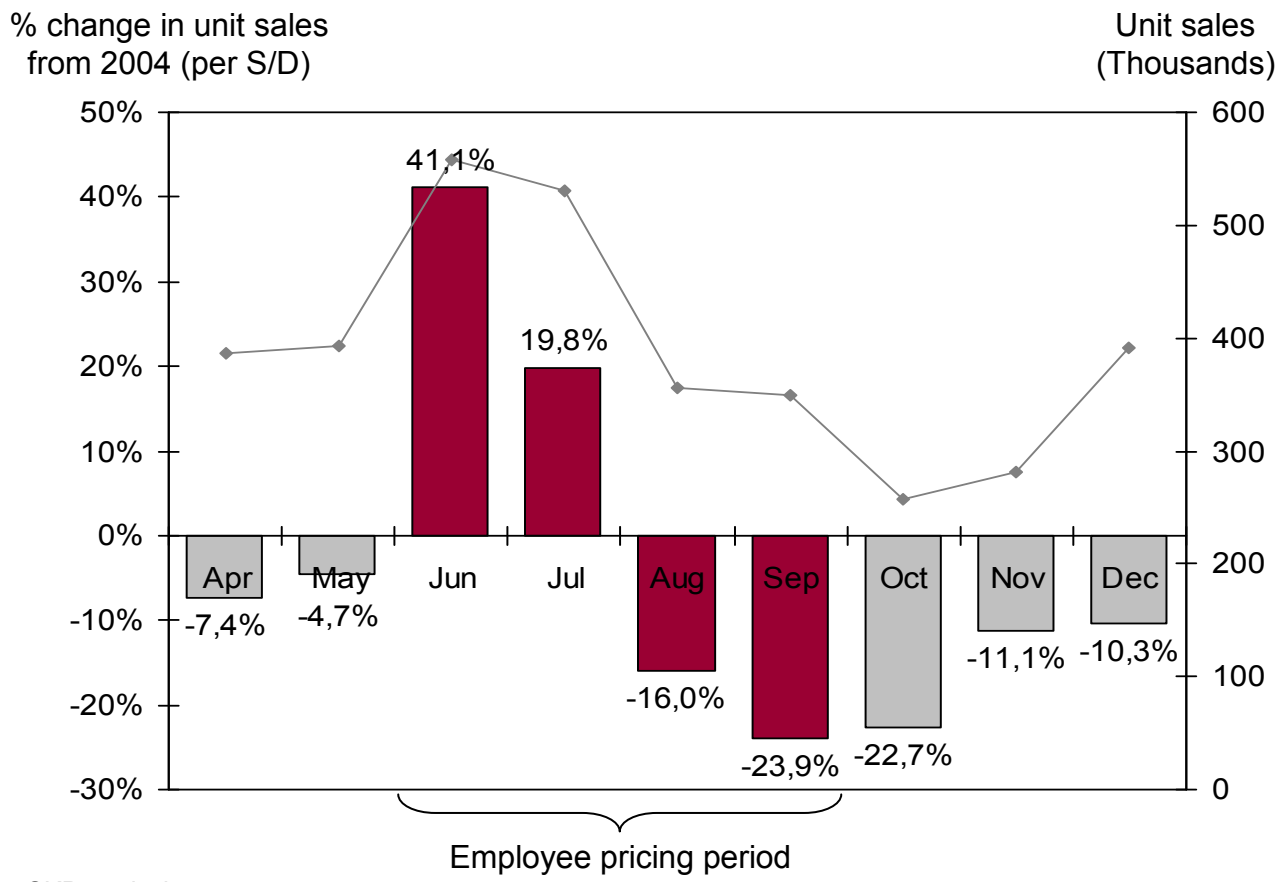


Source: WSJ, www.edmunds.com, www.jdpower.com, company websites

Results of price war for sales performance of GM

The "amazing" sales growth of the promotion's first month lasted a short time, and several months of negative growth followed as competitors reacted and inventories ran dry.

GM's "employee discount" sales performance

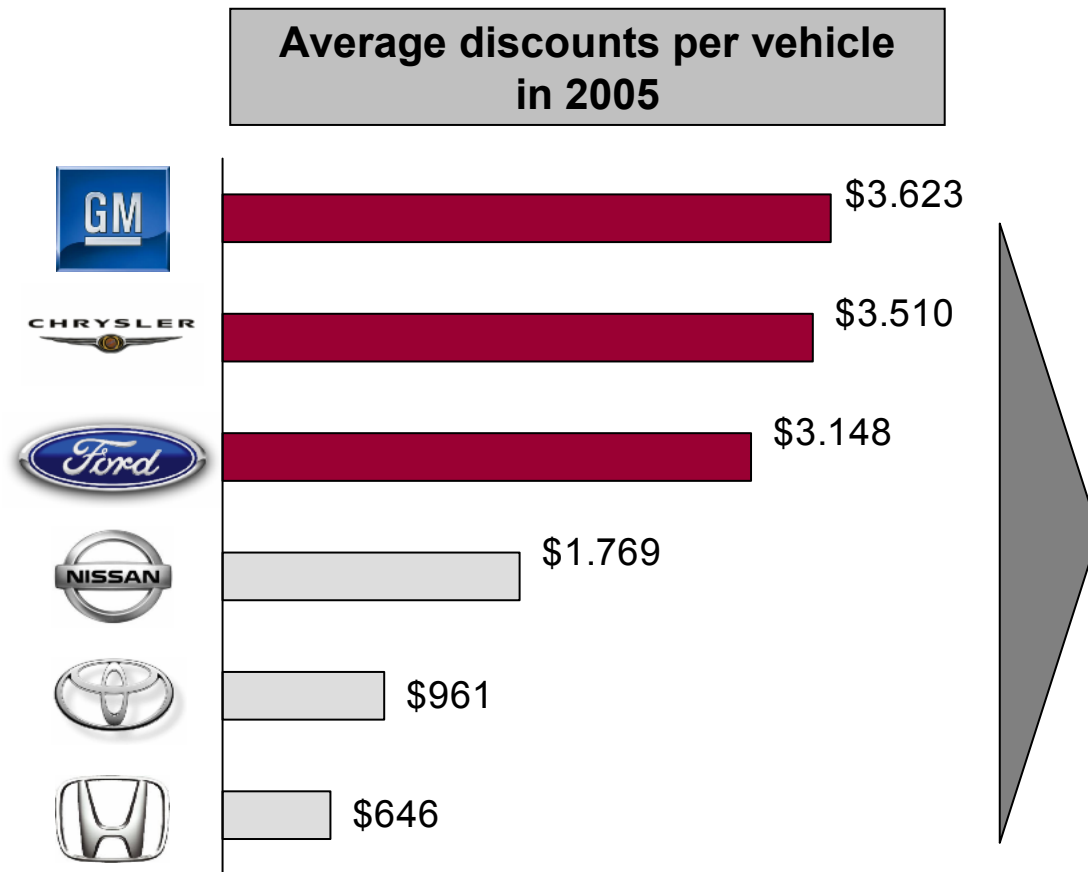


Source: www.gm.com, SKP analysis

(06DE8008_11_X003_Versand)

The Japanese manufacturers avoided joining the incentives battle...

They actually ended up gaining market share in the end as well.



*Basically it appears that Toyota, Nissan, and to some degree Honda, just **sat this one out** - and comparing August 2005 sales with August 2004 figures, the implication is that the **Japanese three** have **increased overall share** of the US market, and have also **slightly increased their pricing**.*

- Antony Peloso, professor of marketing at the W. P. Carey School of Business

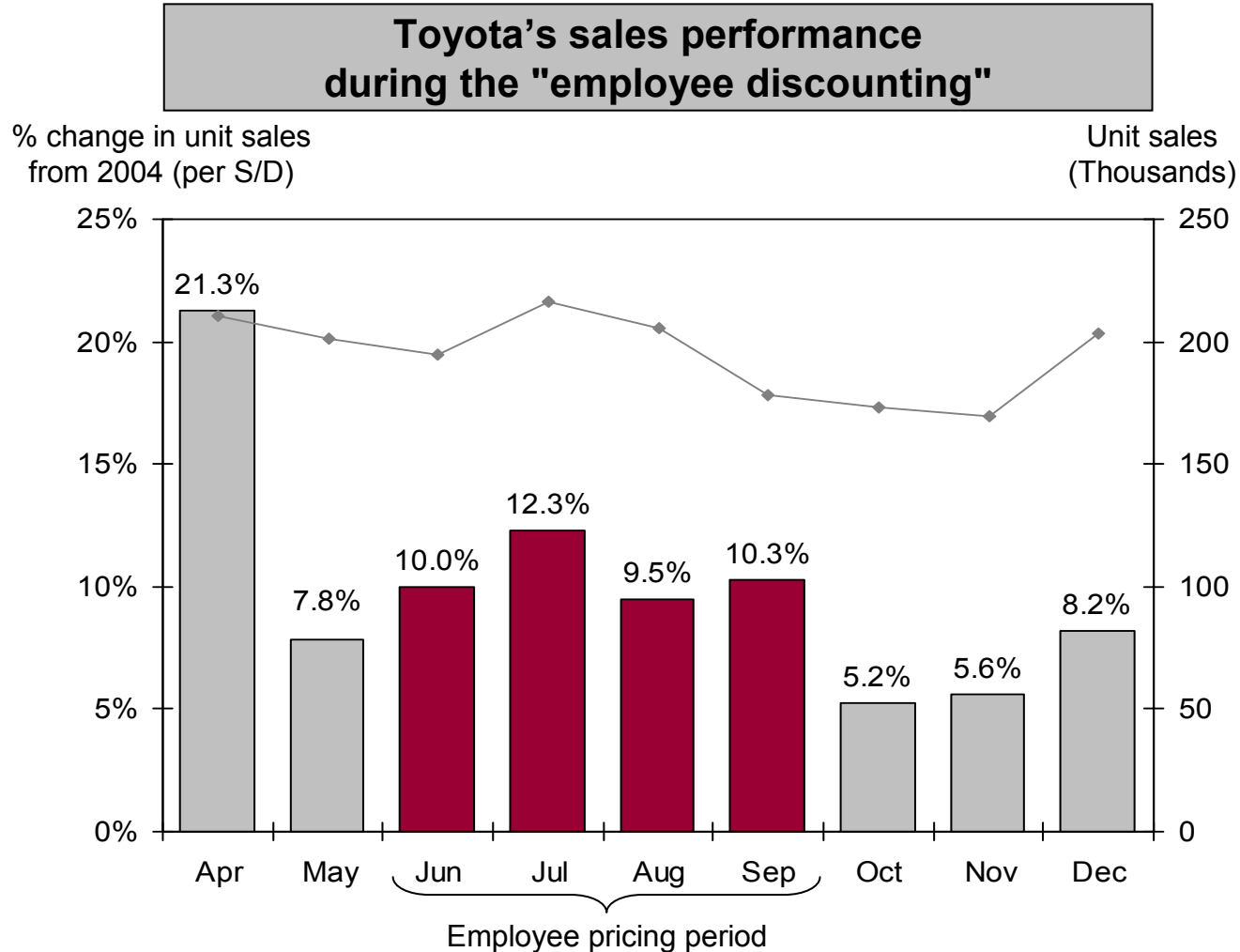
Source: www.edmunds.com, www.wpcarey.asu.edu

(06DE8008_11_X003_Versand)

- 5 -

... and managed to sustain high sales figures by selling on value

Honda and Nissan show similar performance as Toyota during the "employee discounting" period.



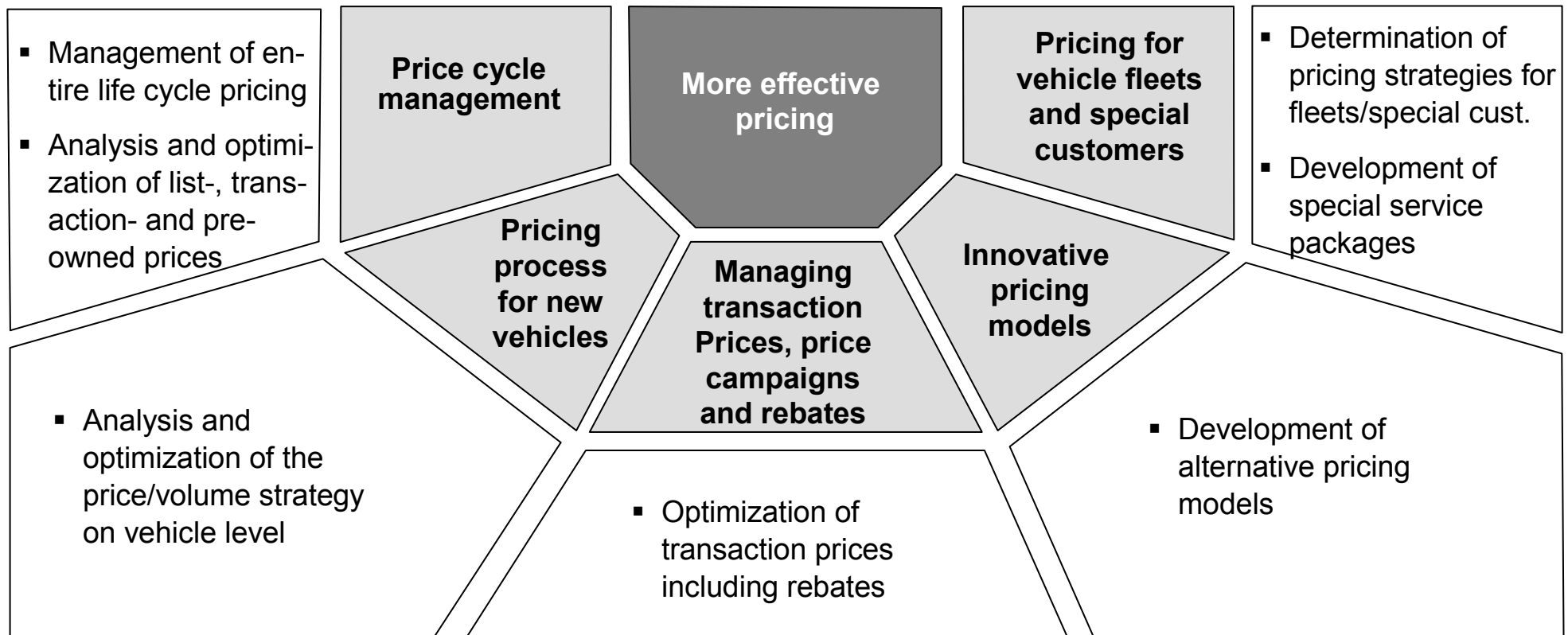
Source: www.autonews.com, SKP analysis

(06DE8008_11_X003_Versand)

- 6 -

More effective pricing

An optimized rebate systems is only one of many important pricing issues for more effective pricing. Pricing related topics can be broken down to the following fields of action.



 **Create transparency, raise efficiency, grow profitably.**

Six success factors for the Russian automotive industry

1

Develop a long-term and integrated discount strategy fitting your price strategy and competitive positioning!

2

Identify and use the right incentives: e. g. service contracts can improve your quality image, etc.

3

Identify and avoid incentives with negative side effects: high cash incentives harm your long term pricing strategy, your brand image & change customers' behaviour!

4

Anticipate the competitor's strategy and adapt your own actions accordingly!

5

Be aware of the effect of price and discount communication: Do not neglect product- and brand-related communication!

6

Don't start a price war!

Successful pricing: OEM's need to do these three things well



... price for profit, not for market share, driven by market demand, not by production



Create a goal-driven culture of profit by:

- ✓ Eliminating strategic goal conflicts and mixed messaging from senior executives
- ✓ Enforcing core pricing principles
- ✓ Changing personal incentive systems to ensure compliance



... refuse a shotgun approach to incentives, because it is a proven waste of money



Eradicate a culture of aggression by:

- ✓ Monitoring how price actions draw competitive responses
- ✓ Understanding how pricing actions (yours and competitors') contaminate prices over time
- ✓ Demanding a profit-based business case for all decisions on incentives



... treat pricing for vehicles, financing, service, and spare parts as one integrated, rigorous process



Create an evidence-based culture of rigor by:

- ✓ Disregarding conventional wisdom when establishing new vehicle price points
- ✓ Determining the optimal vehicle content level for a given price point
- ✓ Calculating model-by-model, part-by-part when to change prices

Project example: Price positioning of new products

Simon-Kucher & Partners improved significantly its clients' profits through professional pricing.

Originally planned price:	Under the psychologically important barrier of 15,000 Euro, i.e. 14,750 Euro
Capacity:	200,000 units per annum

Simon-Kucher & Partners:

- **Value-based pricing**
- **Results:** Basic price: 15,500 Euro
Modified the standard equipment
- **Profit-plus:** **200,000 x 500 Euro =
100 Million Euro per annum**

Simon-Kucher & Partners' references

Successful companies ...



... worked together with SKP

- Profit from optimal prices for initial line-up
- Minimization of cannibalization
- Pricing standard features
- Standard features fine-tuning
- Profit from optimal accessory prices
- Market positioning in various regions
- Need for alternative engines
- Accessory bundling
- etc.

Why doing pricing projects?

Simple answers:

- The ROI is higher than in most other projects
- The pay-back period is shorter than in most other projects

Source: SKP projects

(06DE8008_11_X003_Versand)

- 11 -

Simon-Kucher & Partners is the world's leading pricing advisor

18 Offices; 480 employees; 80 m Euro revenue; Average growth per year: 25%

"SKP is the worlds' leading price consultancy."
The Economist

SKP, "a world leader in giving advice to companies on how to price their products."
Business Week, 2004

"SKP is the leading price consultancy in the world."
Eric Mitchell, President Professional Pricing Society

USA, Boston

France, Paris

UK, London

Luxembourg, Luxembourg

Germany, Bonn/Frankfurt/Munich/Cologne

Belgium, Brussels

The Netherlands, Amsterdam

Russia, Moscow

USA, New York

USA, San Francisco

Spain, Madrid

Poland, Warsaw

Japan, Tokyo

Switzerland, Zurich

Italy, Milan

Austria, Vienna

O country, city new offices in 2008

<p>Strategy/Organisation</p> <ul style="list-style-type: none"> ▪ Competitive Strategy ▪ Growth Strategy ▪ Corporate Organization ▪ Internationalization/ Globalization 	<p>Sales</p> <ul style="list-style-type: none"> ▪ Sales strategy ▪ Sales organisation and management ▪ Sales Force Effectiveness ▪ Channel management 	<p>Marketing/Pricing</p> <ul style="list-style-type: none"> ▪ Market segmentation and positioning ▪ Brand Management ▪ Price implementation ▪ Price optimisation ▪ Pricing process 	<p>Efficiency Improvement</p> <ul style="list-style-type: none"> ▪ Sales Efficiency ▪ Marketing Efficiency ▪ Price Implementation ▪ Controlling-Systems ▪ Benchmarking/Audits
Implementation Support			

Contact



Dr. Markus B. Hofer

Partner

e-mail: Markus.Hofer@simon-kucher.com

SIMON • KUCHER & PARTNERS

Automotive & Engineering Competence Center
Gustav-Heinemann-Ufer 56, 50968 Köln, Germany
Tel: +49 221 36794-300, Fax: +49 221 36794-398
Internet: www.simon-kucher.com



Dmitry Sharovатов

Consultant

e-mail: Dmitry.Sharovatov@simon-kucher.com

SIMON • KUCHER & PARTNERS

Zemlaynoi Val 9
Moscow, Russia
Tel.: +7 495 967-9730, Fax: +7 495 967-9700
Internet: www.simon-kucher.com