Industry Analysis

Automotive

Q2 2014

Industry Overview

The automotive industry is at the core of America’s love affair with driving, and has been the primary force behind shifting demographics to suburbia for over half a century. For decades, American consumers placed significance on the country that automobile companies hail, giving U.S. companies a substantial edge in the U.S. market. This dynamic has broken down, and American consumers are increasingly looking at value alone when making auto-buying decisions, causing a precipitous falloff in sales of vehicles made by U.S. companies.

Players in this industry design, produce and market automobiles, consisting of passenger vehicles and light trucks. Automobiles are manufactured worldwide, and each major company has factories in multiple regions. Despite this globalization, the plants of the Detroit Three, the three major U.S. automakers (i.e., General Motors, Ford and Chrysler) are still largely located in the Detroit, MI area. A trend over the past two decades has been non-U.S. companies manufacturing automobiles in the U.S., mostly in the Midwest and South. Today, non-U.S. companies have significant production capacity in the U.S., which has resulted in better adaptation by these companies to U.S. tastes and preferences, and insulated them from currency and political risks.

Increased Competition. From the 1950s to the early 1970s, the U.S. automotive market was an oligopoly divided among a few U.S. automakers. The U.S. market has since become the world’s most competitive auto market. Many non-U.S. automakers established themselves in the U.S. market in the early 1980s, and grabbed market share through better quality and addressing shifting consumer tastes. Particularly, Japanese automakers were successful in gaining market share at the expense of the Big Three, now called the Detroit Three. This long-term shift toward more competition has culminated in the near-collapse of the Detroit Three the Great Recession, as their bloated organizations were relics of the oligopoly era. GM and Chrysler needed government-sponsored bankruptcy in order to survive, while Ford narrowly avoided this fate.

Rising competition has reduced the pricing power of automakers, resulting in limited price increases, and in some cases price declines even before the Great Recession began. The uses of rebates and low-interest financing have been rising since the mid-1990s and this trend is expected to continue as the economy remains sluggish. The Detroit Three have been most aggressive with these offerings in response to shr
many dealers have seen disappearing margins on basic models, rel
services to remain profitable.

Latest Activity. GM and Chrysler both went into bankruptcy in 2009, an
Chrysler emerging in June 2009 and GM in July 2009. After the bailouts
GM (now at 37 percent after an IPO), and Italian automaker Fiat gaine
with a 20-percent purchase (now at 45 percent and with plans to increa
leaner, with fewer nameplates and substantially less debt and legacy
bankruptcy as it made significant restructuring before the economic crisis
tap into cash ahead of the crash.