

April 22, 2008

Can Suzuki Leverage Dominance In India To Crack U.S., China Markets?

TOKYO (Nikkei)—Suzuki Motor Corp.'s (7269) Indian operations are highly valued by stock investors, who widely regard the automaker as the sole winner in the country's car market, as it is No. 1 in both market share and profit.

The company's earnings growth in India is being underpinned not only by increased sales volume but also a recent string of new model releases that signal an apparent shift in marketing strategy to vehicles in the medium and higher price ranges.

For the year ended March 31, Suzuki's Indian sales grew 12% from the previous year, and its share of the local passenger car market, excluding multipurpose vehicles, topped 50%, far above the 14% held by India's largest automaker, Tata Motors Ltd., and the 18% controlled by Hyundai Motor Co.

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Overall car sales in India are projected to reach just over 2 million units in 2010, up 40% from 2007. Suzuki plans to boost its Asian sales to 1.32 million units in the year through March 2010, up 18% from fiscal 2007, on expectations of a 40% rise in its Indian sales to 1 million vehicles. The carmaker is expected to remain the market

leader in India with its share running above 50% for the foreseeable future, as its strategy of boosting higher-priced models is likely to help the firm retain its lead.

As recently as May 2005, there was a "Suzuki shock" when the company's revelation of a 1 trillion yen capital spending plan over the next five years took investors by surprise, sending its stock steeply lower.

Over the past three years, the company has funneled 200 billion yen a year into plant and equipment annually as planned, but it has also chalked up new record group profits by absorbing depreciation costs. Suzuki's business results have been strong enough to quell the concerns held by market players three years ago.

Still, Suzuki's earnings strength is not rock-solid, partly because the company is still unable to yield as much profit as it would like in North America and China, two major automobile markets, and also because its operations in Japanese are stagnant.

For fiscal 2007, Suzuki sold 117,000 vehicles in North America, only 4% more than the previous year, with its share of the market running below 1%.

The carmaker is also facing an uphill battle in China, where it markets the SX4 and the Swift. For fiscal 2007, its Chinese sales are thought to have fallen short of the initially projected 180,000 units, with its local plant capacity utilization ratio estimated at around 50%.

Underlying Suzuki's difficulty in the American and Chinese markets are differences in the types of vehicles sought by consumers. Taking center stage in the U.S. market are large vehicles, and bigger models also enjoy strong demand in China, especially from wealthier consumers. Suzuki's market strategy in India -- building its brand strength among consumers first by selling small cars and then capitalizing on its stronger name to sell larger models -- does not work in either of the two other markets.

In fiscal 2007, Suzuki ended up as runner-up in sales of minivehicles in Japan for the second straight year, suffering a 3% sales drop. Meanwhile, Daihatsu Motor Co. (7262), now the domestic market leader for minivehicles, is on a sales drive through a tie-up with Fuji Heavy

Industries Ltd. (7270) in developing and producing minivehicles. Industry watchers predict that Daihatsu could further widen the current gap of 25,000 units it holds over Suzuki during the current year.

In the domestic market, "Suzuki has yet to take any potentially effective step that could help boost its earnings," said Koji Endo, an analyst at Credit Suisse Securities (Japan) Ltd.

The key to Suzuki achieving sustainable growth appears to hinge on whether the company can use the profits it earns in India to heighten its competitiveness in other markets.

-- Translated from an article by Nikkei staff writer Hiroto Tanaka

(The Nikkei Veritas April 20 edition)

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April 21, 2008

Suzuki Motor Injecting Y400bn Into Indian Ops

NEW DELHI (Nikkei)—Suzuki Motor Corp. (7269) recently decided to invest 400 billion yen in India to speed up its Indian business expansion. A quarter of a century after taking the pioneering step into the Indian automobile market, where it currently controls 50% of the passenger car segment, the Japanese automaker is funneling more of its management resources into the fast-growing Indian market, as if to bet its fortunes on the Indian business.

When its Indian unit, now named Maruti Suzuki India Ltd., opened for business in the early 1980s, its product lineup comprised mainly of "old models" which had been sold in industrialized countries for some time. With little competition from other automakers in India, offerings such as the 0.8-liter Maruti 800 sold well without having to be remodelled.

A turning point came for Suzuki's Indian business in May 2005 when it launched the Swift subcompact in line with its new policy of producing and selling the newest model in India at the same time as it does for more industrialized markets. The company opted for the policy change in response to Indian consumers wanting state-of-the-art models, and due to rising competition from rival automakers.

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The new marketing stance soon paid off as local sales of the new Swift ran to 61,200 units in its first year, setting a record in the sales of a new car model in India.

In May 2007, Suzuki released in India the SX4 sedan as its second strategic vehicle for the world market, following the Swift. The launch of the SX4 became another milestone for Suzuki's Indian business because it marked its full-fledged foray into the sedan segment of the auto market.

Currently forming the bulk of India's car market are hatchbacks with engine displacements of up to 1.3 liters, where Suzuki grabs a dominant 60% share mainly due to the popularity of its Swift vehicles.

Other automakers from Japan and Western nations that entered the Indian market later than Suzuki had focused on sedan models intended mainly for higher-income consumers in India, in part to steer clear of a head-on collision with Suzuki in the hatchback sector.

The launch of SX4 sedan signaled Suzuki's challenging of the market picture by making a foray into the turf of rival automakers. Taking another step further in late March this year, Maruti Suzuki launched the Swift Dzire, a sedan version of the Swift.

Sales of the Swift Dzire have had a strong start, as orders received in the first 10 days topped 10,000 units, with purchasers having to wait three to four months for delivery.

For the year through March 31, Indian sales surpassed those in Japan for the first time with 711,824 vehicles, up 40% from fiscal 2005 during which the new Swift was put on the market.

Maruti Suzuki accounted for about 30% of Suzuki's group sales in world markets in volume and 50% of consolidated pretax profit for the April-December 2007 period, indicating that the Indian unit, once dubbed "the good son" of the Suzuki family, has grown into the firm's mainstay business.

Of the projected 400 billion yen in fresh investment in India, Suzuki will use 200 billion for its factories. The company aims to nearly double the annual output capacity of Maruti Suzuki's second plant in Manesar, Haryana State, which came online in 2007, to 300,000 vehicles

possibly by October this year. This will raise overall production capacity in India to 1 million units 18 months earlier than initially planned. The firm will also put money into its diesel engine factory on the same site.

Of the remaining 200 billion yen, half will be spent on improving and enlarging its local marketing and logistics bases, and the other half will go into research and development.

Suzuki will double the number of local dealerships to 1,000 by 2010, a figure that may outstrip the comparable number in Japan. It plans to build large-scale showrooms that can at any one time display dozens of vehicles, including identical models in different colors, in four major cities, such as New Delhi and Mumbai.

The company will also establish in each region of the country "delivery centers" to carry new vehicles to dealers, and "parts centers" to supply car parts, so as to substantially shorten the time required for such logistics.

On the R&D front, Suzuki aims to have the Indian arm work more to develop new vehicles that cater to the needs of local consumers and as well serve as a car development base for Middle Eastern and African nations.

-Translated from an article by Nikkei staff writer Hiroshi Kotani

(The Nikkei Veritas April 20 edition)

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