



# The Brazilian automotive industry at crossroads

## Summary of findings

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Strategy Consultants

São Paulo, March 2010



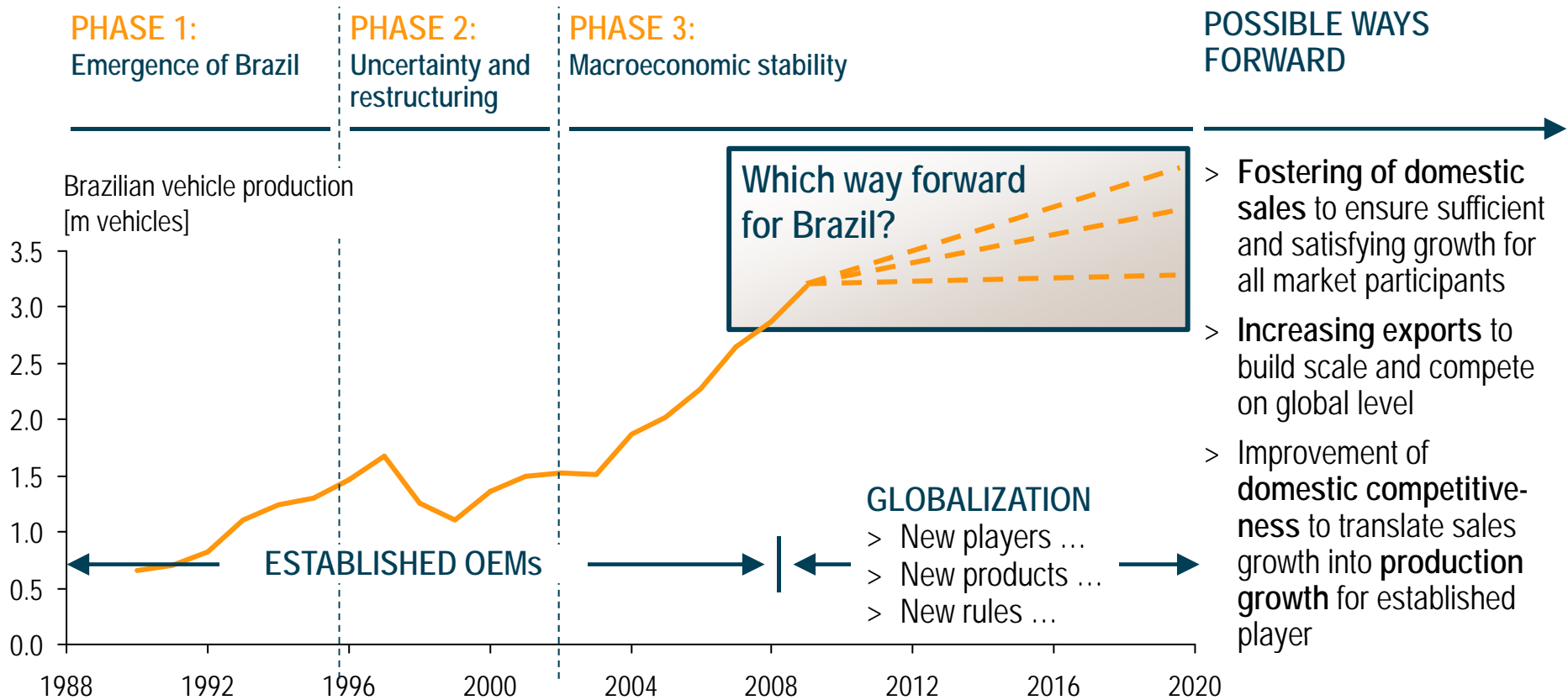
# This study was developed to facilitate the development of a joint industry-governmental agenda for the Brazilian automotive industry

## Background and aim of this study

- > This study was developed from November 2009 until March 2010 by Roland Berger Strategy Consultants with the aim to analyze the future potential and challenges of the Brazilian automotive industry and facilitate the discussion how to develop a joint industry-governmental agenda to support future industrial growth
- > This agenda should include clear actions how to foster the competitiveness of the Brazilian automotive industry both domestically and in a global context; the agenda could include
  - A program to foster national vehicle sales growth (e.g., by reducing total cost of ownership and a national fleet renewal program)
  - Measures to improve the national cost competitiveness in a global environment to maximize national automotive production
  - A roadmap for Brazil's position towards major global automotive megatrends (e.g., future powertrain and energy mix)
- > The conclusions and findings of the study are based on market knowledge of Roland Berger Strategy Consultants or drawn from information and data gathered through desk research and interviews – >20 interviews and discussions were conducted during the study development, including leading carmakers and suppliers in Brazil and the industry's major associations

# Brazil at crossroads – With increasing global competition, Brazil needs to define a clear agenda to ensure future production growth

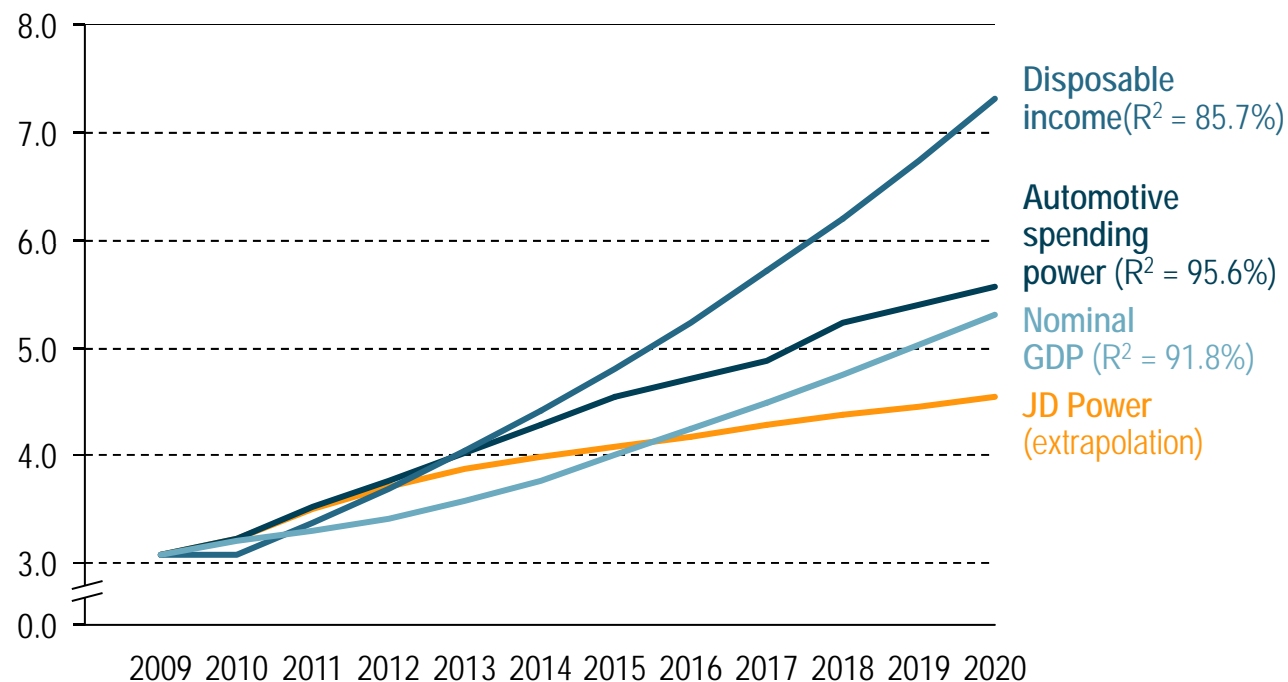
## The Brazilian automotive industry at cross roads



# Brazilian automotive sales have a tremendous potential to grow in the future based on the positive development of the economy

## Validation of JD Power forecast

### FORECAST ANALYSIS BASED ON DIFFERENT INDICATORS [m units]



### FINDINGS

- > Based on regression analysis using automotive household spending power, disposable income and nominal GDP, the JD Power forecasts appear in line in the short to mid term but too conservative in the long term
- > A sales forecast of significantly more than 5 m vehicles by 2020 seems likely
- > This sales forecast may require additional efforts and measures by the industry as well as the Brazilian government

## Joint industry-governmental actions could be undertaken to drive domestic sales growth in Brazil

### Measure to drive automotive sales in Brazil

#### A **Reduced cost of ownership to foster individual mobility**

Brazil has one of the highest total cost of ownership values in the world – **tax burden**, high **financing cost** and higher **production cost** in international comparison are the main reasons

#### B **Incentives to renew vehicle fleet**

**Fleet renewal programs** have been utilized by governments around the world to stimulate local sales and production and enhance the fleet's technology

#### C **Improved infrastructure to accommodate growth**

Brazilian **transportation infrastructure** is one of the worst in the world, showing high improvement potential – significant investments are still complemented

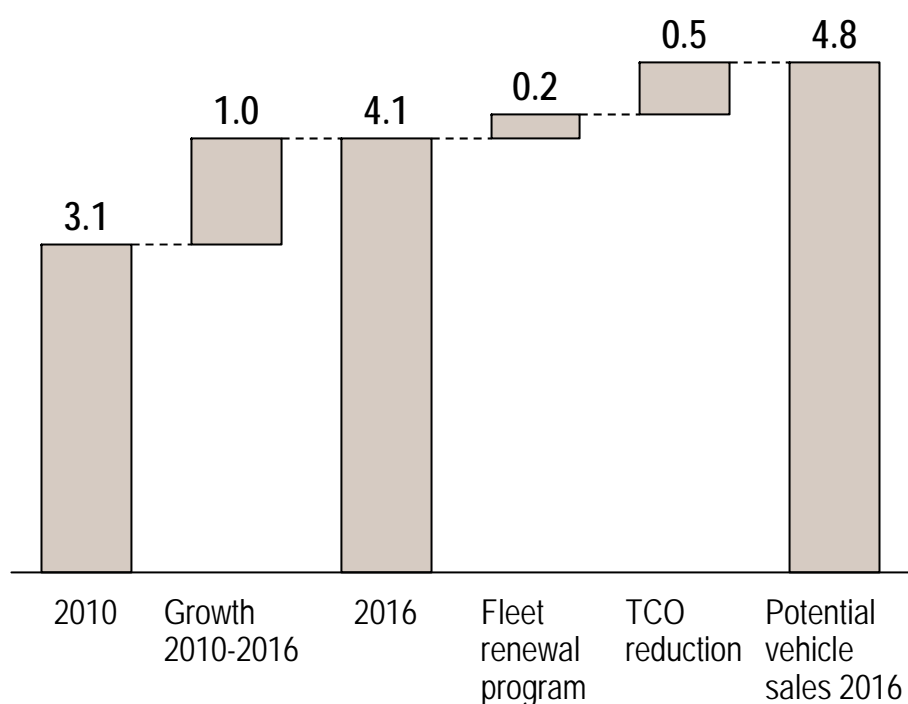


CONTINUED DOMESTIC  
AUTOMOTIVE  
SALES GROWTH

# With these measures, the Brazilian automotive market could be boosted to globally comparable levels

## Measures to stimulate sales in Brazil

### Expected domestic sales growth [m units]



### Measures to boost domestic sales growth

#### Fleet renewal program

- > Program could leverage Brazilian domestic market by 230,000 units p.a. and improve national fleet's emission and safety standards
- > Continuous implementation of the initiative (e.g. every 2 or 3 years) with raising benefits/penalties could also amplify effect and reduce government's investment

#### TCO reduction

- > A reduction of TCO by 10% would allow nearly 8 m households to have access to the automotive market – annual sales growth by 488,000 per year until 2016
- > A TCO reduction of 10% could be achieved both directly by reducing both tax burdens and indirectly by improving other cost drivers for the industry (e.g. bureaucracy), thus reducing the immediate investment volume required

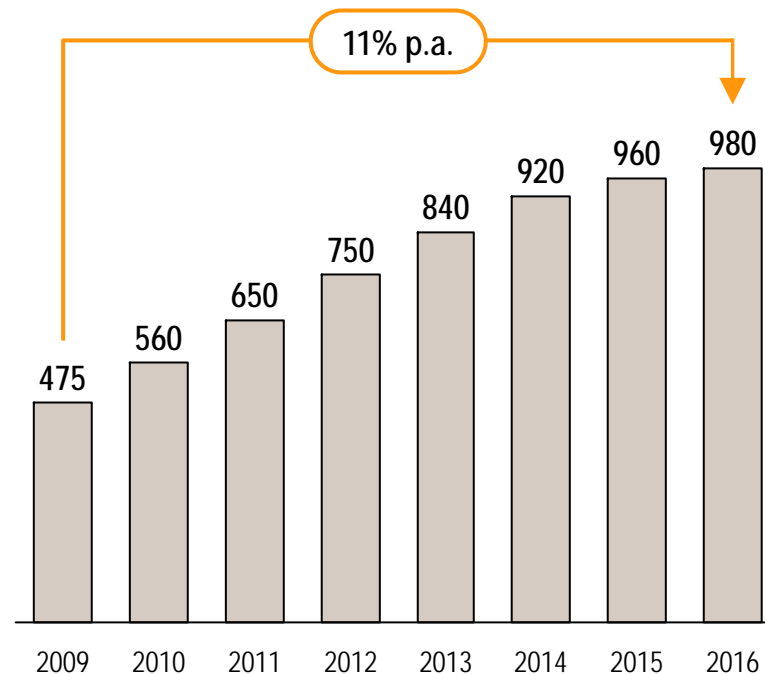
# With a clear export strategy, Brazil should also be able to nearly double exports in the next years

Brazilian export potential ['000 vehicles]

## Brazilian export development by target countries

	2009			2016		
	Market size	BRA export volume	Market share [%]	Market size	BRA export volume	Market share [%]
Argentina	471	283	60%	739	443	60%
Mexico	756	76	10%	1,372	274	20%
Other South American countries	628	37	6%	1,056	158	15%
Other countries	-	79	-	-	109	-
<b>TOTAL</b>	-	<b>475</b>	-	-	<b>980</b>	-

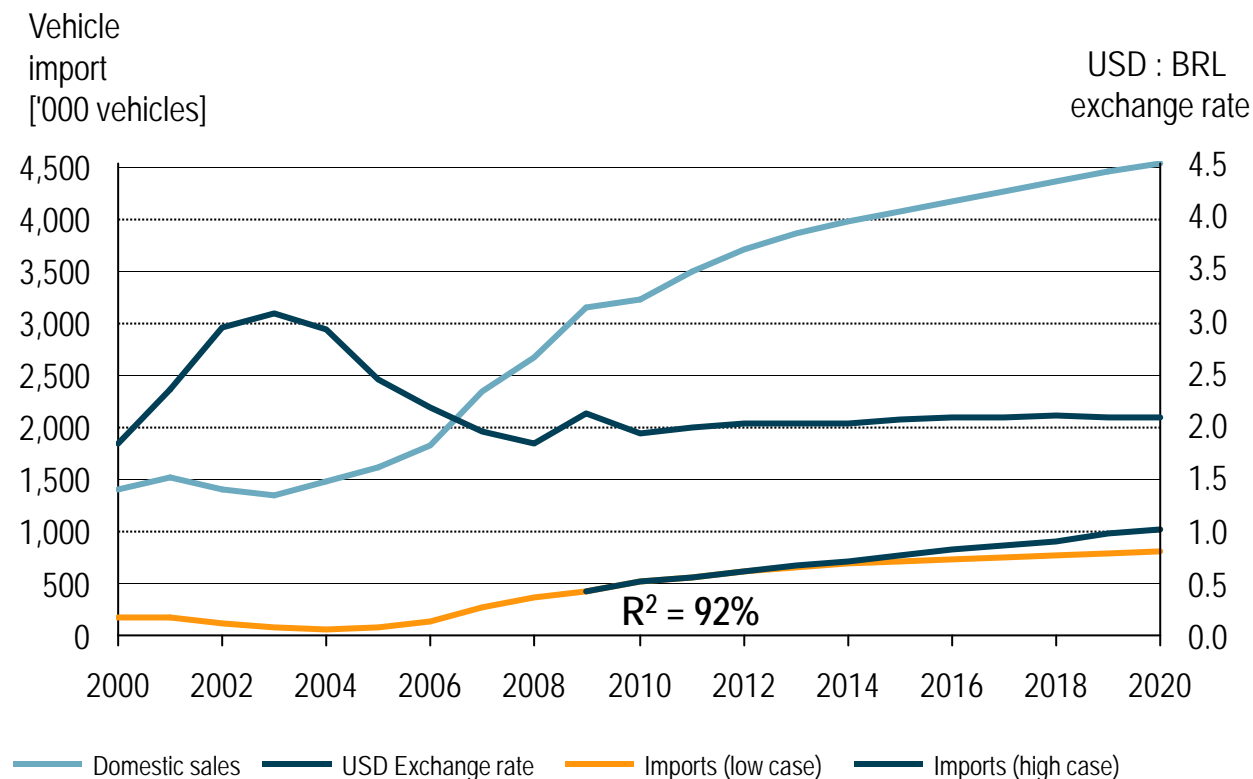
## Export forecast



Based on exchange rate and domestic sales forecasts, imports are expected to continuously increase over the next years

## Brazilian vehicle import volumes

### CORRELATION OF VEHICLE IMPORT AND BRL

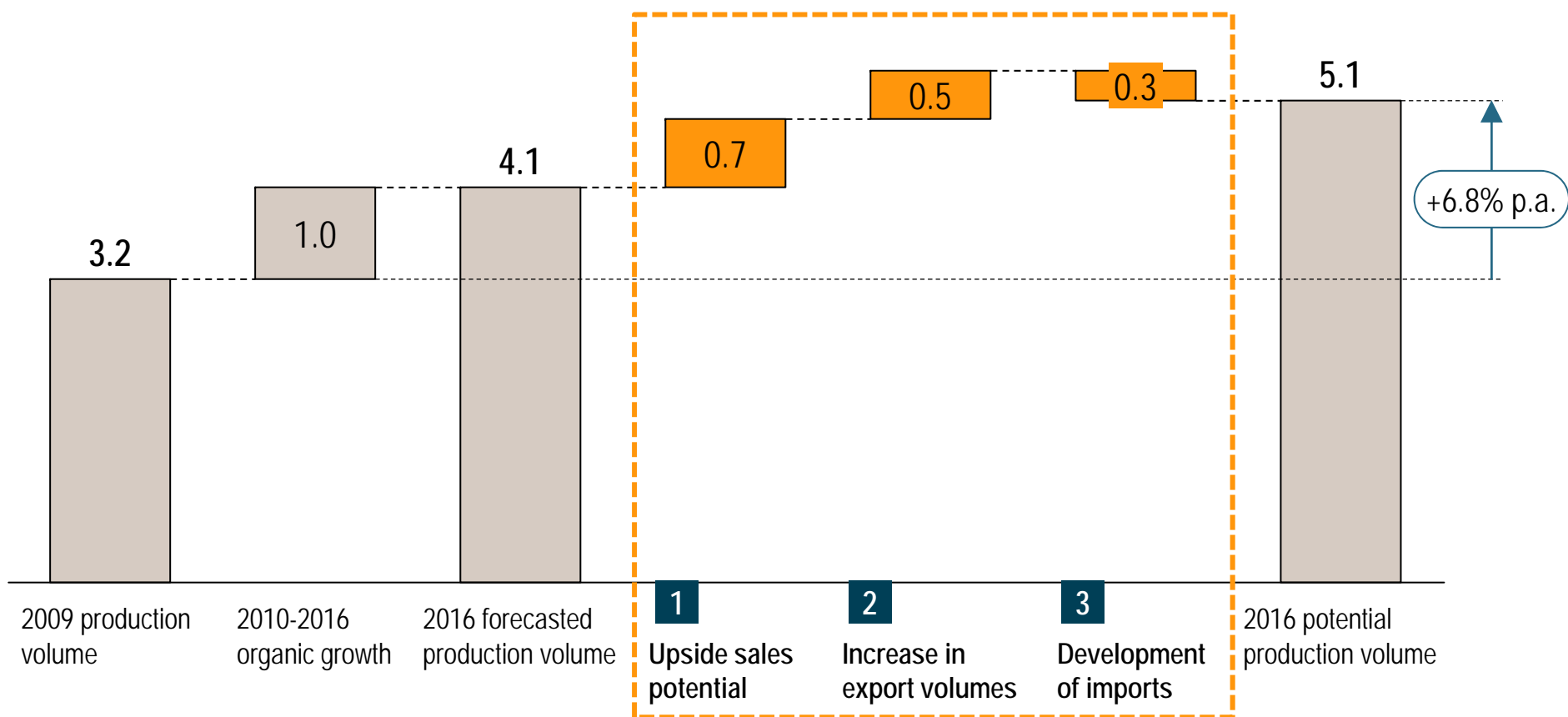


### COMMENTS

- > Based on a correlation with the exchange rate and domestic vehicle sales, imports into Brazil need to be expected to grow by at least 40% until 2016
- > In addition, Brazil needs to fend of imports from emerging Asian OEMs that are highly competitive based on
  - Suitable products
  - Low production cost base
  - Governmental support
- > Brazil should expect long-term imports of up to 1 m vehicles p.a.

# By implementing measures to increase domestic sales and a focused export strategy, yearly production could reach >5 m by 2016

Forecast for national production – RB analysis [m units]



# Four actions are recommended to strengthen the competitiveness of the Brazilian automotive industry

## Final recommendations

### 1 Define future automotive agenda

- > A national automotive agenda needs to be developed jointly between the government and the industry with a clear vision and strategy of the Brazilian's automotive future
- > Without this agenda, the Brazilian automotive industry may lose importance in **mid-term** or at least not maximize its potential

- > The Brazilian government and industry should jointly define a future target energy mix (fossil fuels, ethanol, biodiesel, electrical vehicles, hydrogen) as well as clear measures on how to achieve these targets
- > With the proximity to Silicium reserves in the Andes and high national competences, Brazil could play a global role in developing and producing electrical vehicles and components

### 3 Develop future energy and powertrain mix in Brazil

### 2 Improve cost structure on a holistic level

- > While many cost drivers are cross-industry and need to be addressed on a macroeconomic level, the automotive industry in Brazil remains with a large cost improvement potential
- > An improvement effort throughout the supply chain can help to improve overall competitiveness
- > New models and better cost structure helps to boost exports

- > New imports from established global OEMs are well designed, equipped and aggressively priced; emerging OEMs are learning fast and starting to offer highly attractive products
- > Brazilian products and sales services need to be optimally aligned with current and future customer expectations in terms of design, functionality, quality and affordability

### 4 Ensure future competitiveness of Brazilian products



For further details of the study or to receive the full version,  
do not hesitate to contact us



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