

Big Ships...Sink!

MANY MONTHS BACK, EMMAAA HAD TAKEN A DEEP LOOK AT THE SALES OF THE EXECUTIVE AND PREMIUM SEGMENTS IN THE MARKET. IN BOTH CASES, THE ANALYSIS WAS THE SAME – BOTH SEGMENTS ARE DIMINISHING AND HEADING TOWARDS A SEMI-EXTINCTION.

Sales volumes have been falling in both cases and EMMAAA expects stability to arrive in 2015, albeit at the current low levels, with the long-term future of both segments remaining cloudy.

In both cases, the compact SUV / crossover has been the culprit, the killer, except in the case of the Premium segment, the compact Crossover has the Luxury tag attached to it.

SEVERE LIFECYCLE ISSUES

In both the segments, the customer is a prick. He is demanding, he is snobbish, he is upwardly mobile and considers himself a rockstar without snorting addictions. He feels he has arrived and wants his car to exude his personality (or whatever sense the brand's marketing jargon may make). In short, he is demanding and wants to be pampered and surrounded by gizmos. Drunk on counterfeit Johnny Walkers and toting first copy (WTF! is a first copy?) designer stuff, he demands exclusivity, at least for a few weeks of buying the car.

He may be a she in the above case but the character traits stay the same.

In case of the Premium segment, the he is about ten years older (than in the Executive segment), has some form of posture related ailments and prefers the rear seat to the front. The demand on the gizmo front may relax a bit but those on the safety front and exclusivity front get even more stringier.

The end result is the seven week lifecycle of Executive Segment and Premium Segment cars in the Indian market.

LIFECYCLE ISSUES

A Mahindra SUV is one end of the spectrum, an end where a decades old platform still works as long as people outside your vehicle think that you have bigger grapefruits just by the virtue of driving a ~~pain in the ass~~ difficult to drive vehicle.

THE EXECUTIVE AND PREMIUM SEGMENTS ARE THE OTHER END OF THE SPECTRUM.

These segments are defined by very short lifecycles, to the extent that the first year is often the best for the new model. At about 700 units per month, over-exposure sets in and by the end of the year, the car is as hot as a starlet who has done three item numbers in the last three months.

Thankfully, there is a new model on the horizon and the new model defines the segment for some time before the cycle repeats itself.

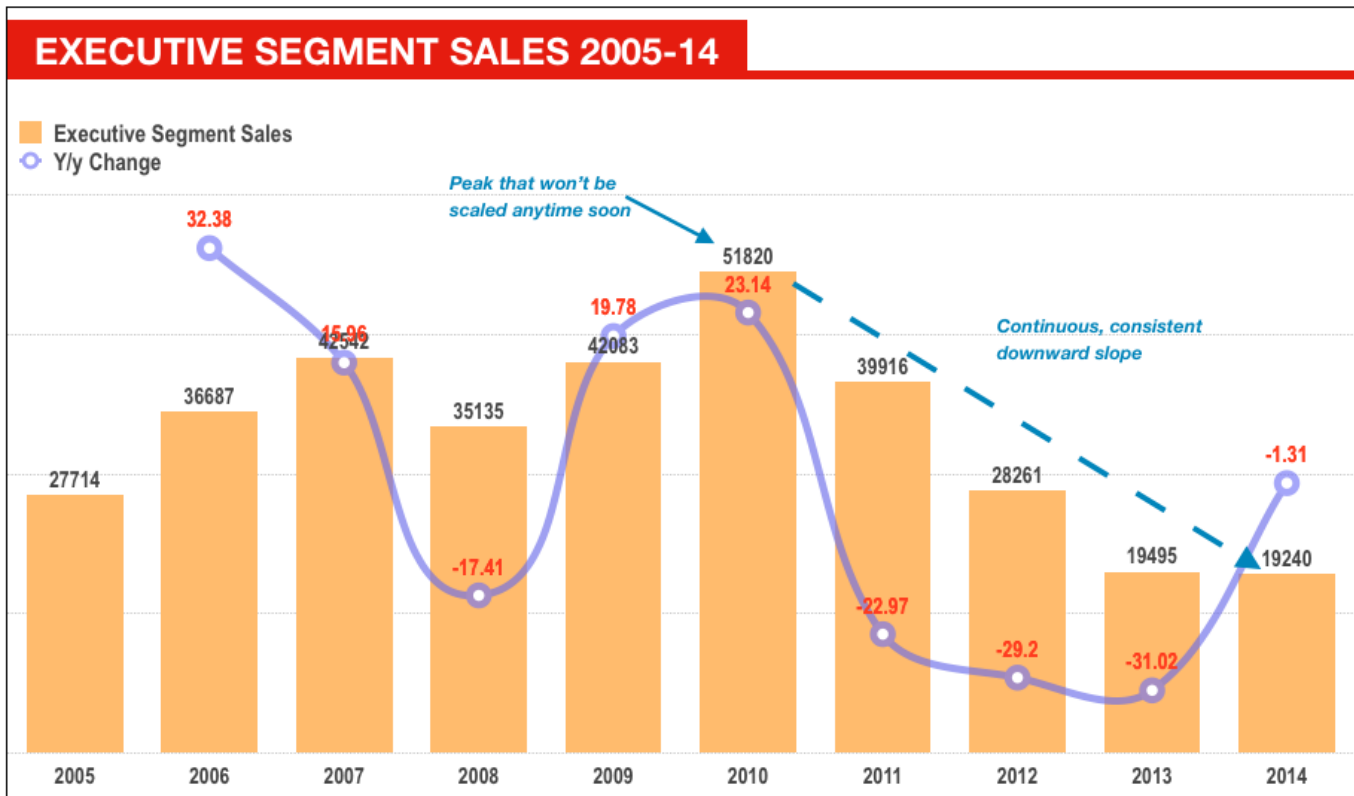
Now all this may be a slight over-exaggeration, and shit doesn't hit the fan so fast. However, when we plot the sales data for these models over the last ten years, the graphs are rolling disasters. The Start Bang is very sharp and we reach a very Quick Peak, the Profit Plateau is a small hump and the

remainder of the lifecycle is often apologetic Ventilator Support, apologetic because, in most cases, the car on ventilator is also the flagship in the showroom.

Now, there are some models that have a longer staying power – the Corolla in the Executive segment and the Superb in the Premium segment. However, make no mistake, the character of the lifecycle curves does not change much.

LOOKING AT 2013 vs 2014

More than the lifecycle characteristics of these models, it is the total segment volumes that are worrying. Over the last ten years, the Executive segment has been one sorry curve and has been declining for four years in a row. The Premium segment has shown some growth but the growth is minuscule as compared to the overall industry growth. In both cases, the overall volumes are so low that the models don't get more than a slide each in the typical *"How we will win 10-percent share of the Indian market by 2018"* presentations.



In 2013, the Executive segment accounted for 19517 units in annual sales. The year was eventful as two hot new models – Toyota Corolla and Skoda Octavia – were introduced. Also, the Hyundai Elantra was not so old, entering the year, and even the Volkswagen Jetta looked respectable. We exited the year 2014 with sales dispatches of 19240 units, a decline of 1.42% from prior year. The Corolla managed a respectable 64% uptick in dispatches, riding a new generation model that looks astonishingly good for a Toyota. However, beyond that, the entire segment was in deep red. Yes, even Skoda, where the overpriced new Octavia could not even replicate the volumes of the outgoing Laura.

The Fiat Linea was another growth story but the Linea is not in the segment due to prestige but is present due to its bulk.

Things were ~~not much different~~ even worse in the Premium Segment. In 2013, the segment accounted for 3041 units with 6-7 models, depending on what time of the year one checked. The year was mostly uneventful with only a minor facelift to the Skoda Superb making news headlines. By the end of the

year, dispatches had dropped to 2202 units, a drop of 27.6% from previous year. The Skoda Superb makes up for most of the segment with the other participants cheering from the sidelines. The Superb accounted for 61% of the segment last year and was the only meaningful gainer in the segment.

We say meaningful because the Superb was not the only gainer in the segment. The Toyota Camry gained too – at 529 units, the Camry's annual dispatches shot up by 753% over previous year. At that volume, no one noticed.

The Corolla and the Superb have been the leaders in their respective segments for a long time. Both models have different reasons of succeeding. The Corolla has proved itself as dependable over successive generations even as Skoda, Chevrolet and Volkswagen played Russian Roulette with their customers and lost them on account of patchy quality.

The Superb sells due to completely different reasons – the customers loved diesel and the Superb and the Passat were the only ones offering the same. And between the two, the price gap is – enough to buy a Super Compact Segment sedan – skewed in favour of the Superb.

EXECUTIVE SEGMENT – KILLED BY THE COMPACT CROSSOVER

The biggest reason stunting the growth of the Executive Segment is the Compact crossover. High-end variants of the Duster / Terrano as well as Mahindra's XUV 500 offer enough variety for traditional Executive Segment customers to get distracted. Adding to this list are Compact MPVs like the Maruti-Suzuki Ertiga and the Honda Mobilio. These crossovers / MPVs offer better space flexibility and often more seating than a typical Executive segment car.

What has also worked against the segment is the narrowing price differential between the top-end of the lower segment (Mid-Size Segment) and the Executive segment. To add to the Executive sedan's misery, the top-end of the Mid-Size segment comes fairly loaded and the top-end of the City and Verna have trim levels comparable to the entry levels of some of the Executive segment cars.

What works in the favour of Mid-Size segment sedans is the fact that they pull much larger volumes and have significantly lower component and servicing costs. The after-sales service is comparatively cheaper and the cars hold their value better in the resale market.

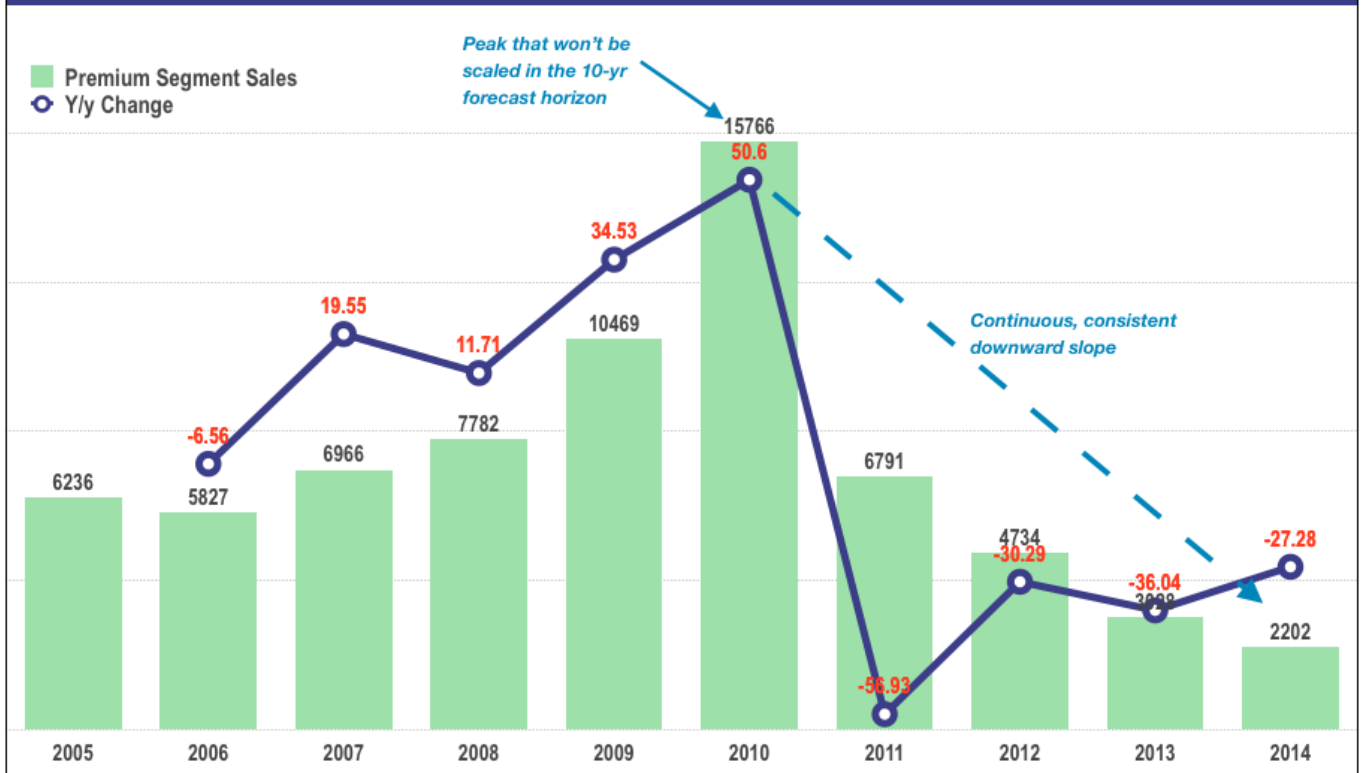
Then there is the lucrative used car market where the lower end of the Luxury segment and Premium segment cars suddenly become very affordable. As cars in the Premium Segment and Luxury Segments depreciate fast, and have owners who like to upgrade faster due to high disposable incomes and desired exclusivity, often low mileage Luxury / Premium segment cars are available at very low prices, bringing them in the hitting zone of Executive Segment buyers.

PREMIUM SEGMENT – KILLED BY EVERYONE

The Premium Segment is a different story. Volumes may have shrunk in the segment but the customer is spoilt for choice. He may buy the top-end of the Executive segment or even go for the entry-level of the Luxury segment. The introduction of Compact Luxury Crossovers like the Audi Q3, Mercedes GLA & BMW X1, and Luxury Compact sedans like the Mercedes CLA and Audi A3 has given the typical Premium Segment customer with better choice.

And hey, there is nothing more satisfying to the ego than replacing the Volkswagen badge with an Audi one.

PREMIUM SEGMENT SALES 2005-14



Also garnering for the attention of the Premium segment buyer are the full-size SUVs like the Fortuner, CR-V, Outlander, Pajero Sport, Santa Fe and Endeavour. The Fortuner is the main culprit here, outselling everyone else combined but even in company showrooms offering both a Premium Segment sedan and a full-size SUV, the customer often strolls over to the SUV side of the showroom. The result is there to see – Honda persists with the poor selling CR-V but discontinues the Accord. Ditto for Hyundai, which has discontinued the Sonata but will keep pushing the Santa Fe.

There is also the used car market for the Luxury segment where everything from an Audi A4, A6, Q5, and their competitors are available for a steal and will take the Premium segment customer away.

WHY DO MANUFACTURERS PERSIST WITH THESE SEGMENTS

So despite the poor volumes, and seemingly no long-term future, why do manufacturers continue to persist with these cars? The Executive segment is easy to explain – the natural progression in the Indian market would likely push more customers towards the segment somewhere in the long-term. Most of these products offer high margins and for some manufacturers, the Executive segment is the flagship in their showroom.

They need the halo.

The Premium segment is even easier. Most manufacturers don't assemble Premium sedans locally and so the involvement of the plant in the process is nullified. Calculating prices, margins and counting the moolah becomes a much easier exercise. Chances of effing up and making a loss, even if you sell five units a month, is almost nil.

Plus, there is the flagship funda as well – most Premium Segment models are flagships for their brands. They are technology showcases and an opportunity for the brand to pull buyers into the showroom post which they may buy a Polo and be happy.

In short, it is a low profits, low risk game where the deal is more about enforcing the brand identity rather than make some serious money.

In ways, it reminds you of a shop in ~~Times Square~~ ~~Khan Market~~ Galleria – you may not make profits but your brand needs the advertisement.