

Automotive News China

Toyota to focus on profits, not share, as it battles Germany's luxury rivals

Jochen Siebert

Automotive News | 2013-2-26



Toyota may be the top-selling automaker worldwide, but it doesn't act like a top dog in China.

With group sales of 840,000 units last year -- down 5 percent from 2011 -- Toyota trails well behind China's other top foreign automakers, General Motors, Volkswagen and Hyundai-Kia.

For 2013, we expect Toyota to achieve a modest 4.8 percent sales increase, to 880,000 units, which means it likely will grow more slowly than its peers.

In general, Toyota has been slow to introduce new models in a market that has become much more competitive than it was a few years ago. The company has been cautious about adding production capacity, and it has been reluctant to cut prices to boost sales.

For those reasons, we forecast that Toyota's market share will decrease from 6.3 percent to 5.9 percent by 2018.

Price war

Toyota has struggled to establish itself in China's luxury segment, and the company's Lexus brand has been under severe pressure since the German luxury brands began cutting prices.

Last year, Audi, BMW and Mercedes offered discounts of 8 percent, 11 percent and 15 percent respectively, while Toyota dealerships discounted their vehicles by only 6 percent.

By reducing production from September through December, the automaker kept dealer inventories low and reduced the need for incentives.

We don't know for sure whether Toyota actually reduced its dealership sales targets, but it is quite likely that it did.

In our opinion, the luxury segment's price war -- rather than Sino-Japanese political tensions -- is the main reason that Toyota has been losing premium sales. To be sure, sales fell sharply after street demonstrations broke out in China last August. By December, however, demand began to return to normal.

While Toyota is a well-established mass-market brand in China, the Lexus brand has probably missed the boat. Lexus cars, which are imported to China from Toyota's plants in Japan and Canada, are subject to high tariffs.

To price Lexus more competitively, Toyota would have to launch Lexus production in China, but the company probably wouldn't get approval from the Chinese government. Without local production, Lexus will find it increasingly difficult to compete with the German premium brands.

But Toyota should enjoy more success at the lower end of the market.

In 2015, we believe Toyota will top sales of 1 million units in China with the help of new, lower-priced products.

The upcoming EFC (or Entry Family Car) will be Toyota's first foray into the segment priced below 70,000 yuan. The EFC small car will be based on a new platform that will borrow components from the Toyota Etios, which is produced in India.

Despite Toyota's plan to expand its product lineup, we don't see the need for the company to build new plants in China before 2018, as there is some room for slightly more production in their existing plants.

Moreover, Toyota is likely to be cautious about expanded production in China, given the uneasy relations between China and Japan.

Profits vs. growth

We believe Toyota will try to maintain its profit margin rather than fight for market share. The average price of a Toyota in China is 220,000 yuan (\$35,300), significantly higher than other mass-market brands.

By contrast, the average VW-brand model costs only 143,000 yuan (\$22,900).

Toyota is under less pressure to sell cars in China than some of its global rivals. China generates 30 percent of Volkswagen's global sales, but only 10 percent of Toyota's total sales.

Toyota does not appear to be entirely satisfied with the status quo. To react more quickly to market changes, the company has moved its China marketing management from Japan to Beijing.

But an all-out effort to gain market share doesn't seem likely. For the moment, it looks as if Toyota will let Volkswagen and General Motors fight for bragging rights as China's top-selling foreign automaker.

Pictured: Jochen Siebert is managing director of JSC Automotive, a leading consultancy specializing in automotive market research in China.