

Automotive Industry in Mexico: Segment Analysis of Luxury Cars

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Abstract

The internationalization strategy of the luxury car companies in México is usually performed through direct export, since it only involves the sale of products made by firms in their home country to customers in other countries. But the Audi brand is the first to build a plant in Mexico, which has an investment of over one billion dollars and will generate 8,000 jobs, either directly or indirectly; currently in the second stage, which is to build the warehouses that have the assembly plant, the first in the country to arm luxury SUVs.

Key words: Automotive industry, luxury cars, market structure.

JEL: L110, L130, F120

1. Introduction

The market for luxury cars or premium segment in Mexico, which includes several brands such as Audi, BMW, Lexus, Mercedes and Porsche, is dedicated only to marketing them, there is currently no production of luxury cars in the country. Mexico is one of the leaders in the market for luxury goods in the world due to their annual growth rates. During the past five years, the value of the market grew by up to 28.9 percent from 4000 to \$ 57 million 5000 232 million in the period 2008 to 2013, according to data monitor Euro (2013).

Audi, BMW and Mercedes-Benz are competing to dominate the market for premium cars. Success depends on the four key markets of China, Germany, the UK and the U.S., which account for over 60% of the combined sales of the trio. The close relationship between wealthy households and the performance of these three

players' premium leaders suggests that the outlook is good for future sales volumes.

2. Background

The luxury market is characterized by being exclusive and selective in which only a very small percentage of the population can access. Despite the above at least one of every 7 cars that are bought are car dealerships in the luxury segment. Companies like Porsche, Volvo, Mini and BMW reported an increase in sales in February, 43.2%, 33.8%, 25.7% and 5.7% respectively month.

In February 2014, 5 thousand 426 luxury cars were sold across the country, a higher number than those achieved in 2008, before the economic crisis, according to the Mexican Association of the Automotive Industry (AMIA). The increase was 16.5% compared to results of the same month of 2012, although in that year sales doubled compared to 2011, when 2, 207 units were acquired. Only in these 2 months have sold nearly a third of what was achieved in all of 2010.

The strategy used in the automotive industry on the luxury segment is differentiation, as is how the product is delivered to the consumer what he/she perceives as valuable and different. Differentiation is defined as the strategy that goes to smaller, well-defined segments, which are willing to pay higher prices. The strategy is intended to attract consumers who are willing to pay high prices. Differentiated products must have unique attributes such as quality, sophistication, prestige and luxury. According to the framework of the five forces, the less a differentiator resemble his rival, its product will be more protected. (Peng, 2010)

A. Market structure

Within the automotive industry, mass car market could represent a perfect competition because the large number of agencies that are competing,

while the luxury-car market is an oligopoly, as there are only 5 brands that compete directly the price range and 10 agencies throughout the state of Jalisco in those brands.

Table 1. Index of significance IHH.

Key	Economic units	Gross production	Fee	Square fee	Contribution to IHH	Square contribution
From 0 to 2	340	192,147.00	0.463286	0.214634	0.007504	0.000056
3-5	304	389,559.00	0.939267	0.882223	0.030846	0.000951
6-10	206	605,226.00	1.459263	2.129449	0.074454	0.005543
11-15	151	962,288.00	2.320177	5.383220	0.188219	0.035426
16-20	109	863,363.00	2.081658	4.333301	0.151510	0.022955
21-30	225	2,486,047.00	5.994119	35.929459	1.256239	1.578136
31-50	312	4,987,994.00	12.026574	144.638481	5.057144	25.574706
51-100	462	15,410,822.00	37.157100	1,380.650056	48.273089	2,330.291117
101-250	268	14,855,207.00	35.817454	1,282.890007	44.855004	2,011.971359
251-500	11	722,118.00	1.741102	3.031436	0.105991	0.011234
TOTALS		41,474,771.00		2,860.082266		4,369.491485
				IHH		ID

Based on data from INEGI.

There is an oligopoly. The highest concentration of gross production, is in the business of 51 employees and 100 and from 101 to 250, with a percentage of 48 IHH and 45% respectively, with a total of 730 companies that make up the 2388 the sector (Varian, 1999). The information in this industry tend to be complete, since there are information on prices, promotions and product characteristics, and being such a competitive industry who is the winner is the consumer. The barriers to entry for this industry are the large quantities required to invest in infrastructure agencies, as the image of them, should be standardized, in other words, the outlets are the same in Mexico than in Europe.

3. Defining the problem

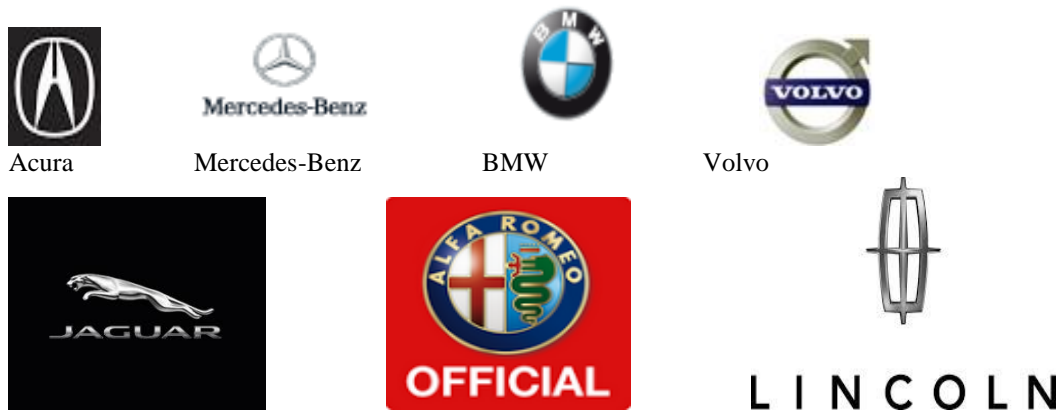
The automotive industry is intensely competitive in the mass market, where its profit margin is reduced because of the struggle for staying, or brand supremacy should punish profit margins to compensate with volume sales. Previously, the luxury sector did not show these "unfair" practices and competition unfolded in a "gentleman treatment" because as mentioned, the consumer is seeking product differentiation and does not skimp on the price of the product. However, mass market brands have ventured into the production and distribution of luxury cars, thus limiting profit margins for the sector that historically have been reported, leading to an imminent risk that the

sector enjoyed stability as the percentage of profit per unit.

Based on the above considerations, the research question is: What will be the impact of the entry of new competitors into the luxury sector of the automotive industry?

4. Contextual background

The main competitors are Audi, Mercedes Benz, BMW and Volvo. In the state of Jalisco's 143 agencies selling new cars; of which 10 belong to the luxury market, 1 Audi, 3 Mercedes, BMW 3, 2, 1 Volvo Porsche. They have a variety of models ranging from \$ 369,900.00 to \$ 12, 349,900.00 (value chain)



Jaguar Alfa Romero

Figure 1: registered luxury automobile dealers in Mexico

Sources: Data from the Mexican Association of Automobile Distributors (AMDA)

The industry, according to the INEGI, sales of \$ 22'289, 354,000.00 was obtained.

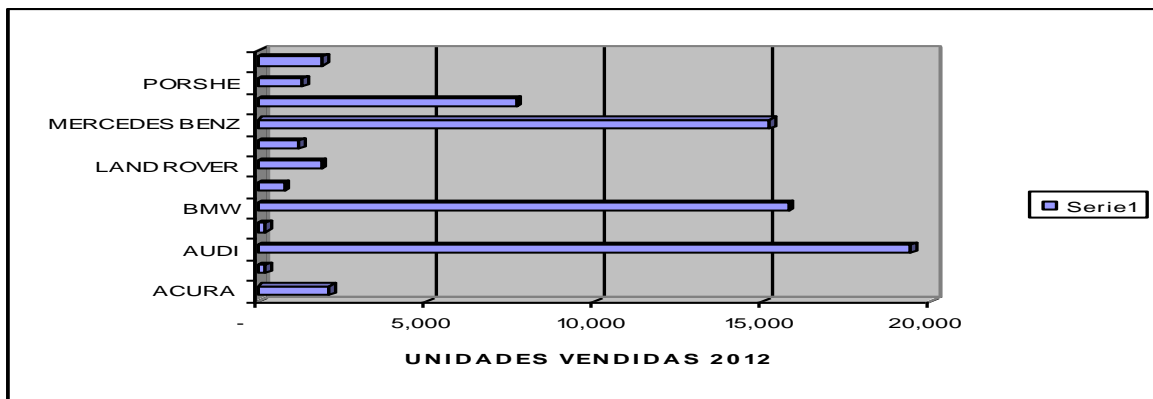


Figure 2. Sales 2012

Source: AMDA.

Total units sold in 2012 were 1'315, 865 while the Premium market were equivalent to 5.14% 67.606

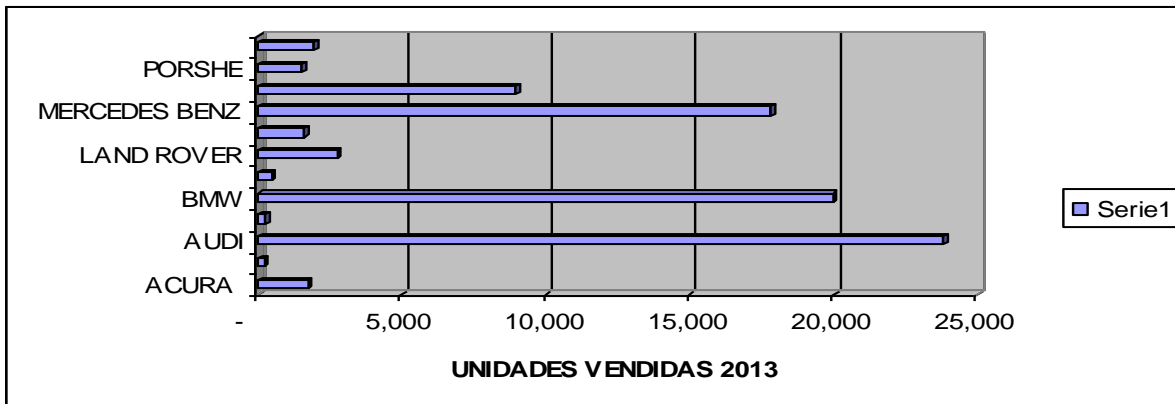


Figure 3. Sales 2013
Source: AMDA

Total units sold in 2013 were 1'400, 343 while the Premium market were equivalent to 5.79% 81.101

Based on the above data, taken from AMDA, The market leading luxury car brands are: The first Audi, BMW is second and Mercedes Benz third (AMDA).

According to the publication of the Mexican Automotive Dealers Association (AMDA, 2012), the units sold in 2011, for the luxury segment were 36,410 same representing 4 percent of the total units sold in the industry for such period. While the year 2012, were sold 56.623 luxury units, which accounted for 5.7 percent of the industry in the year. Finally, during the period of January to December 2013, 62,619 units were reported as sold, representing 5.9 percent of these total units sold in the industry.

As can be observed in the above figures, growth is determined in the sector. Coupled with this, if considering its high profit margins, the segment has become difficult invitation to refuse for competitors who previously were developing solely on the massive sector. Whereas an industry is a group of firms or enterprises that produce goods and / or services similar to each other to evaluate the competitiveness of the sector, it will be used the vision-based industry which is supported by the frame of the five forces strategy (Porter, 1980).

5. Conceptual and theoretical background

A. Rivalry between competitors

Within the automotive industry, as mentioned above, there are a number of competitors, and intense rivalry between them, insomuch that do not maximize their profits due to their competitive strategy that is cost leadership based on discounts and promotions offer to be leaders in the market. However, in the luxury segment the situation is a little different because its benefits outweigh firstly there are fewer competitors and their competitive strategy is product differentiation that beyond the price, it has to do the value that the consumer perceives it and that is according to a wealthy lifestyle.

B. Threat of potential entrants

The mass market is motivated to belong to the segment of the luxury market, due to the lucrative returns above average perceived in this sector. Here companies that are within the luxury sector are protected by barriers to entry, which in this case will be the proliferation of products, i.e. fill market spaces of goods so it is little demand for potential entrants. An example of this barrier, it would be the launch of Macan (Porsche), which was scheduled for June 17 in Mexico, although specializing in Porsche sports cars, this product promises to be a commercial success.

Another factor that has been mentioned repeatedly is product differentiation, which refers to the uniqueness and how the buyer values it. Here come the brand differentiation and customer loyalty, as input to the mass market to luxury brands certainly they have an important role for the identification and positioning of the sector.

C. Bargaining power of suppliers

In the marketplace for luxury cars in Mexico, the suppliers have their own car brands, as each one of them has been produced in their home country and exported to where their distributors are located in local markets.

D. Bargaining power of buyers

In the luxury market buyers have no power to take actions that can cause a decrease in company profits, because as stated above is an oligopolistic market structure. There is an upward trend for the purchase of cars luxury Mexico.

E. Threat of substitutes

The threat of substitutes requires firms to be alert examining the picture, which is different to stay focused on the focal industry. Focal firms should explore other industries which may have substitute products, such as jewelry, travel, electric cars, etc.

6. Method

Taking into account the knowledge of microeconomics and strategic management, a descriptive study was conducted, using data from AMDA, AMIA, INEGI and some other internet sources and books of the aforementioned areas.

7. Analysis results

Based on the research conducted, the Mexican automobile industry is segmented into mass market companies comprising the Ford, Nissan, Chevrolet, Chrysler, Fiat, Seat, Hyundai, etc. Mexican automotive industry and the luxury market in competing companies like Porsche, BMW, Mercedes Benz, Audi, Volvo, Lincoln, and Acura. It concludes that the mass segment is entering the luxury segment.

The market structure in the mass segment tends to be perfectly competitive, as there are many competitors, available, reduced profit margins, great promotions, so the one who is most benefited is the consumer. While in the luxury segment, the situation is different because the market structure is oligopolistic, as the number of competitors is smaller, they have a higher profit margin, they

have many promotions, but as in the mass market the information tends to be perfect. Strategy in this segment is product differentiation, since it is talking about luxury goods, for which the important variable is the value not price.

It was conducted, used and was performed an analysis of the industry, in the framework of Porter's five force as potential entrants engaged in the industry, bargaining power of suppliers, bargaining power of customers and substitute products, applied to the automotive industry

Conclusions

The market-leading luxury car brands are: The first Audi, BMW second and Mercedes Benz third (AMDA). The luxury car segment of the Mexican automotive industry has a privileged position due to high profit margins and growth rates of recent years. This is the motive why members of the mass market are turning their eyes to that segment, and then to wait what happens to possible saturation of this segment and which strategies are taken to maintain industry leadership.

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