discover automotive

Observatory report on the Italian automotive sector 2010

Observatory report on the Italian automotive sector 2010

The Observatory

The Observatory on the Italian automotive sector was created by Torino Chamber of Commerce to fill the gap in knowledge about this strategic field for economic development, which is also an important part of the local industrial history.
Since its inception in 1997, the Observatory report has gradually grown to include the whole national automotive industry, turning into a vital resource for academics, decision makers, people in the public administration and anyone working in the automotive sector in general.
Starting last year, the Observatory report has been conducted in collaboration with ANFIA (Associazione Nazionale Filiera Industria Automobilistica, i.e., the Italian association of the automotive industry).
Its latest edition is based on in-depth interviews with 983 Italian and Piedmontese enterprises, comprising a representative sample of the universe of the Italian automotive field, composed of about 2,600 corporations.
The economic downturn and the great changes occurring in major international groups, Italian enterprises' strategies, revenue forecasts, internationalization and R&D expenditure: these are the main subjects this edition of the Observatory deals with, presenting the definitive 2009 data and outlining some of the possible scenarios for the future of the automotive field in Italy and in the world.

This year there was a particular focus on the North American market, one of the richest and most dynamic in the world. After the agreement between Fiat Group and Chrysler, it certainly represents an opportunity – not only for the company based at Lingotto, but for the whole sector in Italy. In fact, Fiat Group and Chrysler already share half of the suppliers in their portfolios, and in 2008 the Italian cluster exported parts and components to North America for almost one billion euros.
Torino Chamber of Commerce collaborates with Step Ricerche S.r.l. to compile the Observatory report.

The Observatory report's data in short

The global crisis hit the automotive industry more than any other in manufacturing: suffice it to say that, in 2009 alone, production dipped by 10 million units worldwide, and by -17.6% in Italy compared to 2008.
Consequently, the Italian sector's revenues decreased by 15.8% during 2009, going from 49.6 billion euros in 2008 to 41.7 billion euros. Piedmontese enterprises account for about half of that: with more than 84,000 people employed (versus 171,000 in Italy as a whole), their revenues topped out at 21 billion euros (-16.5% compared to 2008). All analyzed territories and segments were hit in a similar way, ranging from modules and systems suppliers' -13.6% to specialists' -17.1%. Only major companies were able to cut losses, as they can count on more updated products.
Exports, worth over 42.6% of total revenues, decreased at about the same rate as total revenues: -15% on average, and -12% for Piedmontese enterprises. The latter, however, confirmed they have established a stronger presence in international markets, as 69% were able to maintain job orders from abroad (compared to 58.5% in the rest of Italy). At the same time, dependence on Fiat rose, reaching 63.2 euros out of 100 (compared to 47.8 in 2008). The causes for this, however, can be considered more temporary (as Fiat Group increased its market share in 2010) than structural. In Piedmont, the same figure rose to 78.1.

R&D expenditure did not falter: while decreasing in absolute terms, its reduction was proportional to revenue, if not relatively smaller. Finally, Fiat's plan for 2010-2014 holds great opportunities for the whole automotive sector: supposing at least three quarters of its goals are achieved, Italy's output in 2014 would reach almost 1.5 million motor vehicles – returning to levels last recorded in 2002, 18% above the average output of the last decade.

Estimate of 2009 revenues and number of employees in the automotive sector in Italy and in Piedmont.

ITALY	Enterprises	Employees 2008 *(estimate)*	Employees 2009 *(estimate)*	Revenue 2008[1] *(balance sheet) in BIL*	Revenue 2009 *(estimate) in BIL*	Rev. Automot. 2009 *(estimate) in BIL*
TOTAL	2,196[2]	204,913	171,227	€ 49.589	€ 41.773	€ 37.916
Piedmont	880	101,780	84,097	€ 25.496	€ 21.279	€ 18.996
Rest of Italy	1,316	103,133	87,130	€ 24.093	€ 20.494	€ 18.920
ED*	250	31,330	26,193	€ 5.091	€ 4.274	€ 3.609
OEM**	62	32,557	28,129	€ 10.496	€ 9.069	€ 8.276
Specialists	315	52,370	42,711	€ 13.603	€ 11.274	€ 10.615
Sub-suppliers	1,569	88,657	74,194	€ 20.399	€ 17.157	€ 15.416
PIEDMONT	**Enterprises**	**Employees 2008** *(estimate)*	**Employees 2009** *(estimate)*	**Revenue 2008** *(balance sheet) in BIL*	**Revenue 2009** *(estimate) in BIL*	**Rev. Automot. 2009** *(estimate) in BIL*
Piedmont	880	101,780	84,097	€ 25.496	€ 21.279	€ 18.996
ED*	131	24,344	20,084	€ 3.600	€ 2.970	€ 2.425
OEM**	34	17,035	15,559	€ 5.277	€ 4.799	€ 4.389
Specialists	159	27,141	20,034	€ 5.931	€ 4.378	€ 4.000
Sub-suppliers	556	33,259	28,420	€ 10.688	€ 9.133	€ 8.182

Source: Elaboration by Step Ricerche of data from balance sheets and interviews

[1] The 2008 figure was re-calculated this year according to filed 2008 balance sheets and to the companies present in the sector in April-May 2010 for which 2008 balance sheets were available. Hence the total 2008 data is different from the one reported last year, which was estimated by applying the 2008-on-2007 variation declared by interviewees to the 2007 figure (resulting in a 2.6% underestimation). This is due to the fact that the statistical universe – enterprises in the sector for which the balance sheet was available – changed in the meantime; between 2008 and the beginning of 2010, in fact, we updated it considering the 166 enterprises that are not active anymore, the 83 that do not belong to the automotive sector anymore, and the 202 new additions to the database. Summing up the revenues (both from automotive markets and others) of the 2,196 enterprises for which the Observatory has the 2008 balance sheet data, the result is 49.6 billion euros.

[2] This is the number of enterprises for which the Observatory has balance sheet data. Data was extracted from AIDA's database, produced and distributed by Bureau VanDijk Electronic Publishing, which includes the (consolidated or not) balance sheets filed by corporations headquartered in Italy.

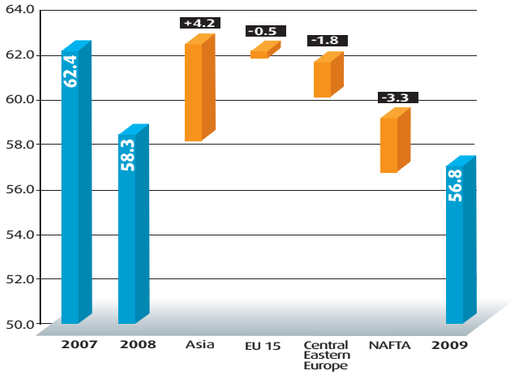
* Engineering & Design

** Modules and Systems suppliers

The International context

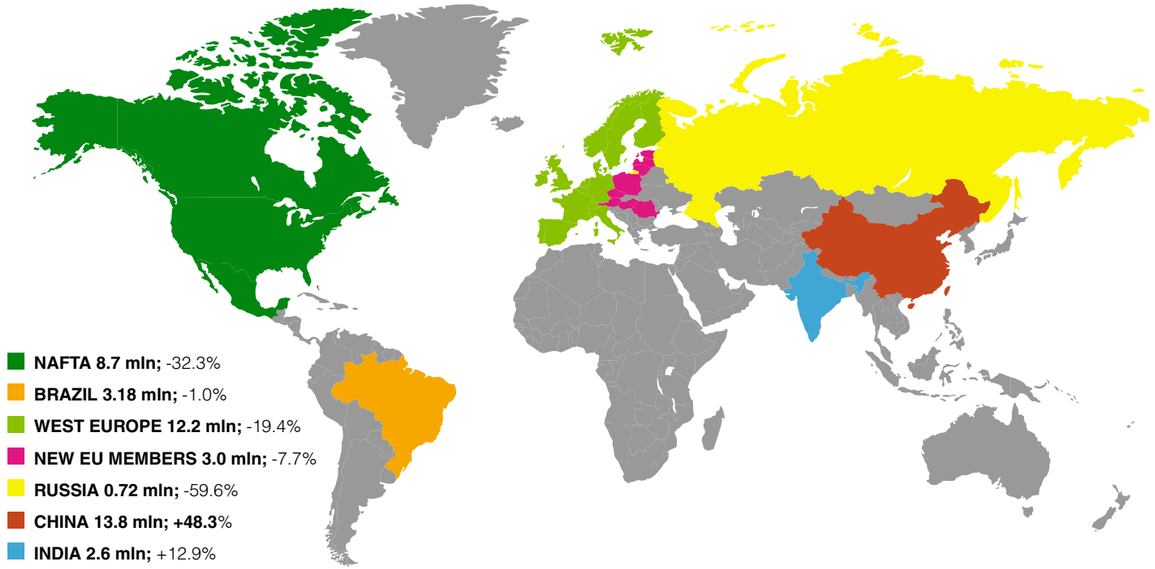
Beginning in the fall of 2008, the financial crisis spread to the market for durable goods and, eventually, cyclical goods like cars and other motor vehicles. After 6 years of worldwide market growth, the trend turned on its head leading to new-vehicle sales decreasing from more than 62 million in 2007 to approximately 57 million in 2009.
Production came to an even worse standstill; after the record-breaking output levels of 73 million units in 2007, 2009 recorded a mere 61 million.
In one year (2009), the decrease in the number of units produced was almost 10 million (-13.5% compared to 2008).
Within the context of a widespread crisis, not all continental and national markets behaved in the same way.
Amongst mature markets, some suffered substantial losses (-21.4% in the United States) while others were able to limit the damage (-3.4% in Western Europe) thanks to government incentives on the purchase of new cars and commercial vehicles.
On the other hand, the most important emerging markets (except for Russia's -48%) continued to record positive growth rates, ranging from India and Brazil's +11% to China's 45.5%.
In fact, their share of the total new-vehicle sales in the world went from 29% to 36% in only twelve months.
And what's in store for the near future? While the International Monetary Fund expects world GDP to bounce back to 4.6% this year, most operators suggest 2010 will be a year of transition for the automotive sector, marked by government incentives gradually running out and consumer confidence still affected by the uncertainty of recovery and the high levels of unemployment.
New-vehicle sales are not expected to return to pre-crisis levels (2007) much before the end of 2011 or the beginning of 2012.

New-vehicle sales in the world, 2007-2009
(MIL units, data regarding the 39 biggest markets).



Source: ANFIA and other automotive sector manufacturers' national associations.

Production in the world in 2009, broken down by area (MIL of motor vehicles assembled, with percentage variation compared to 2008).



Source: OICA (International Organization of Motor Vehicle Manufacturers).

Consequences of the crisis

The markets' prolonged halt brought productive capacity utilization under 70%, far below the level allowing for profitability (which is around 80%), with inevitable consequences on the financial results achieved by both assemblers and component manufacturers.
During the two years under examination, the 10 largest automotive groups recorded an overall 38% decrease in their stock market value.
The 12 largest groups in the world in terms of sales suffered losses for 26.2 billion euros in 2008 and 2.7 in 2009, with a 13.9% decrease in revenues in the same year.
The crisis made things worse for companies already facing challenges, pushing some to file for Chapter 11 bankruptcy (Chrysler and General Motors) and forcing national governments to intervene directly with emergency loans and bail-outs.
Moreover, major players have decided to implement radical restructuring plans, which led to some long-standing brands being sold (Volvo, Saab), some plants being shut down (especially in the United States, but also in Europe) and a revived trend for alliances (PSA-Mitsubishi, Renault-Daimler) and share acquisitions (Volkswagen-Porsche and Suzuki, Fiat-Chrysler).

Green techs

Acquisitions and strategic alliances allow companies to quickly bridge gaps in terms of both the technologies and the markets in which every player needs to be present.
Emerging markets to seize should not be intended only as geographical areas, but also as new or renewed trends and segments – the most important of which is the one for "clean" technologies, which emit fewer polluting gasses, if any.
While Toyota paved the road with its hybrid cars (featuring both an electric and a traditional engine), the next frontier seems to be the completely electric car, passing through plug-in

vehicles with range-extending engines. We still cannot say whether the business plans counting on producing and selling thousands of units within a few years are realistic, but announcing the project for an electric car today seems essential to all carmakers wanting to present themselves as innovators.
Fiat Group continues to defend its leadership in the low-emission market, for example by offering its MultiAir system and smaller engines (such as the latest twin-cylinder one), which guarantee the same power as traditional engines that have higher cubic capacity.
Lately, Fiat Group has also bolstered its position in the hybrid and electric car market, also thanks to the experience Chrysler has gained in the segment.

The automotive market and industry in Italy

Last year Italy followed the same trends as the rest of the markets in Western Europe: new-car sales were fairly stable, but there was a general decrease by about 3% due to the strong downturn in the sales of industrial and commercial vehicles (ranging from 20 and 40% in Italy as well as in Europe).
In 2009, production in the automotive sector decreased by 17.6% compared to 2008 (19.4% in Western Europe).
Over the past two years, production in Italy decreased by one third, going from 1.28 million units assembled in 2007 to 843,000 in 2009.
To find a comparable reduction we have to go back to 1993, when Italian plants assembled less than 1.3 million units.
Within the general downturn in production in Italy, different product categories behaved differently, yielding changes in their relative shares.
Industrial and commercial vehicles and busses accounted for about one fifth of production in 2009, down from 29% in 2007 (almost one third).
In Italy, as in the rest of the world, the margins offered by the automotive sector's market are increasingly difficult to uphold, and consumers are growing more and more aware of innovation.
The sector's dynamism on the global level is an advantage for companies striving to increase their market share, like Fiat Group. In 2009, the Turin carmaker was one of the main players on the field – with results achieved in the last few years, in technological and financial terms, recognized even by the President of the United States.
Thanks to its success in managing its own turnaround, Fiat Group was entrusted with Chrysler's re-launch, gaining a chance to return on the North American market.

Fiat group's plan

The North American market, dynamic and receptive to innovation, is populated by 456 million people with an average per-capita income of 37,700 dollars (46,400 dollars in the United States).
Despite the last few years' difficulties, its demand for motor vehicles still represents more than one fifth of the total market worldwide: an opportunity not only for Fiat but for the whole sector, as Fiat Group and Chrysler already share half of their supplier portfolio, and in 2008 the national cluster exported parts and components to the NAFTA area for almost one billion euros.

However, the Chrysler share acquisition is not so much an achievement as a starting point for a journey leading to the goal of producing (for Chrysler and international joint ventures altogether) 5.5-6 million motor vehicles by 2014, thanks to the synergies between the Italian and American carmakers in terms of both technologies and markets. Of this total, 1.4 million cars and 250,000 commercial vehicles should be manufactured in Italy, yielding an increase in productive capacity that will bring Italian plants up to par with the ones abroad.
Supposing Fiat's plan succeeds completely and other players return to their pre-crisis levels by 2014, Italy's motor vehicle output could reach 1.9 million units (36% more than 2007). Considering a more conservative hypothesis, if Fiat reaches only three quarters of its goals for production volumes, Italy would still produce nearly 1.5 million units in 2014 – going back to 2002 levels, 18% over the average of the past decade.
Hence, Fiat Group's plan is an opportunity for the whole sector to emerge from the struggling economy of the past few years.
It offers greater chances in terms of job growth, orders for parts and components, as well as additional investment in advanced services for product, process and design engineering, which Italian companies are prepared to take.

Estimate of motor vehicle production in Italy in 2014, based on pre-crisis levels and the 2010-2014 Fiat Group plan (in units).

	Fiat Group Automobiles plan achieved 100%		Piano Fiat Group Automobiles plan achieved 75%		2007	
	FGA	Others	FGA	Others	FGA	Altri
Cars	1,400,000	36,622	1,050,000	36,622	874,238	36,622
Commercial vehicles	250,000	166,557	187,500	166,557	154,332	166,557
Trucks	-	51,114	-	51,114	-	51,114
Busses	-	1,449	-	1,449	-	1,449
Total	**1,905,742**		**1,493,242**		**1,284,312**	

Source: Elaboration by Step Ricerche of data from Fiat Group and ANFIA.

Piedmont's role and strong exports

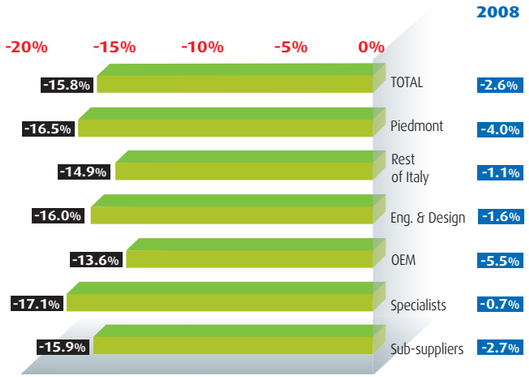
The Fiat plan and Chrysler's re-launch will certainly affect Piedmont, and two of its assembly plants in particular: the one in Grugliasco, which used to belong to Bertone, and the one in Mirafiori, on the outskirts of Turin.
The Chrysler models that had been made in Austria until now (approximately 69,000 cars in 2007) will move to the former, while the latter will increase its production by 67%, going from the 180,000 units of 2009 to 300,000.
As regards 2009, Istat (the Italian national statistical institute) estimates Piedmont will export components for 3.37 billion euros – much less than Step Ricerche and ANFIA foresee by considering all the companies in the supply chain – recording a decrease by 1.5 billion compared to the previous year.
The balance of trade has worsened as well, going from 3.2 billion in 2008 to 2.1 billion in 2009.
Piedmont recorded a greater decrease in exports of parts and components (-30.9%) than in all exports on average (-22%), but did better than the national average (-33.4%).
Therefore, the region's share of Italy's exports increased, reaching 42.2% (compared to 37.4% in 2000).

By breaking down Piedmontese exports by destination, we will notice Europe (including Turkey) accounts for 2.7 billion euros, i.e., 82.5% of the total (80.2% for Italy), up from the 80.5% recorded in 2008, despite the production trend in the region proving worse than the rest of the world.
Regardless of national production results, three main self-sufficient, continent-size areas seem to have established themselves: in the Americas, Europe and Asia, manufacturers tend to find suppliers in their own area (for the purpose of this report, "Europe" includes Mediterranean basin countries such as Turkey and will increasingly embrace Northern Africa in the future).
Countries tend to do business within these well-divided areas so much that not even having a production plant abroad can guarantee suppliers penetration in that foreign market, if it is outside its area.
Hence, Piedmontese exports towards Brazil recorded a 36% decrease in 2009; on the other hand, Serbia has increased its imports from Piedmont fourfold, making its orders soar to 88 million euros, worth 86% of the national total.

The Observatory's Survey and its results

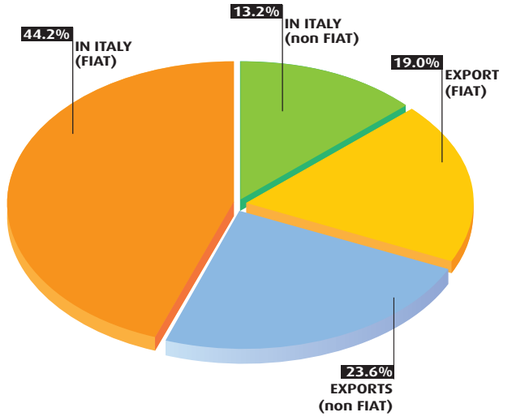
Now we can explore how the overall slump in worldwide and national production affected the makers of parts and components in the local sector, who reached a revenue of about 41.7 billion euros in 2009 (of which 37.9 came from the automotive sector, obviously their main focus) – which is as much as Fiat Group itself recorded in the automotive field. Of these, enterprises headquartered in Piedmont account for 21.3 billion euros in revenues, of which 19 came from the automotive sector.
This year, the survey by Torino's Chamber of Commerce yielded a database including approximately 2,600 enterprises in the Italian automotive sector, asking 25 questions to 983 company managers, of which 398 represented enterprises headquartered in Piedmont. The replies were then weighted according to revenue in order to extrapolate generalities about the sector's universe.
The survey points to the fact that the slump in demand and final supply in the motor vehicle market curbed the revenues of components and service suppliers by 15.8% (2009-on-2008 variation). Unlike in past years, the reduction in revenues affected all analyzed territories and product segments equally; the range of variations spans from -13.6% (modules and systems suppliers) to -17.1% (specialists). Enterprises headquartered in Piedmont record a 16.5% decrease, not far from the rest of Italy's -14.9%. By breaking this down, we can note that exports (worth over 42.6% of the sector's total revenues) decreased by 15% on average in the sample and by 12% in Piedmont, in line with total revenues. The share of revenues dependent on Fiat has increased: out of every 100 euros of revenues in the sector, 44.2 are due to job orders within national borders that are – directly or indirectly – linked to Fiat, and 19 euros are due to job orders from Torino's carmaker's production plants abroad (up from 13.6 in 2008). This increase in Fiat's importance should not come as a surprise, as last year the group's brands outperformed the competition in the European market (+6.3%, compared to an average -1.6% decrease from 2008 to 2009 in the whole continent).
In fact, it is a good sign that the Italian automotive sector proved able to respond to the commercial and productive stimuli from one of its main clients, which has increased its productivity over the past few years, asking suppliers to do the same.

Variation in total revenues, 2009-on-2008, compared with the variation recorded in the previous year (2008-on-2007).



Source: Elaboration by Step Ricerche of data from balance sheets and interviews

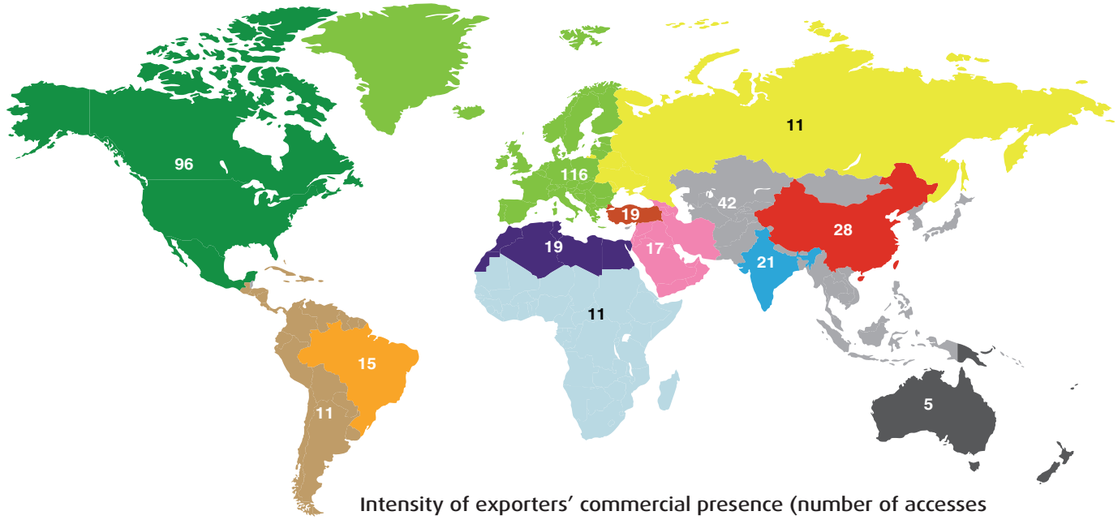
2009 revenues, broken down by end-client.



Source: Elaboration by Step Ricerche of data from balance sheets and interviews.

Italian enterprises abroad

Out of 983 interviewees, 617 (62.8% of the sample) stated they were able to sell their products and services abroad, and not only within Europe, in 2009. Piedmontese enterprises confirmed their stronger-than-average international presence, as 69% of them maintained foreign job orders, compared to 58.5% of the enterprises in the rest of Italy. Moreover, in Piedmont 96 and 91 enterprises say they enjoy a privileged relationship with the United States and Asia, respectively. The internationalization of Piedmontese enterprises has been marked by an increasingly direct presence with production plants abroad in the past few years. The number of plants that were opened and closed in different geographical areas during the year shows that the biggest positive balance is beyond national borders. Going into detail as regards Piedmontese companies' production plants abroad in the past 3 years: 16 new plants started operations (managed by 11 different Piedmontese enterprises) compared with 9 managed by enterprises in the rest of Italy; on the other hand, only 7 were shut down (managed by 3 different Piedmontese enterprises). To be more specific, Piedmontese enterprises opened 3 plants in China, 3 in India, 2 in Brazil, 2 in Iran, 2 in Poland, 2 in Slovakia, 1 in Russia and 1 in the United States. The suppliers for commercial and industrial vehicles were the ones who were hit hardest by the crisis: their contribution of these two segments to the sector's total revenues decreased from 37% in 2008 to 31.4% in 2009. On the other hand, the replacement parts market showed a marked growth: out of 100 euros made by the sector, about 19 are due to the aftermarket.



Intensity of exporters' commercial presence (number of accesses in the first 3 foreign markets, as reported by 602 interviewees).

Number of local units opened and closed in Piedmont, in the rest of Italy and abroad in the past 3 years.

	Openings		Closings		Balance
	Number of enterprises	*Number of plants*	*Number of enterprises*	*Number of plants*	*Number of plants*
Piedmont	4	6	9	10	-4
Rest of Italy	11	15	7	7	8
Abroad	17	25	6	13	12
Total	**32**	**46**	**22**	**30**	**16**

Research and innovation

Despite the challenges of a difficult year, Italian enterprises were able to avoid sacrificing research and development.
While R&D expenditure was reduced in absolute terms, the decrease was in line with the fall in revenue, or relatively smaller: the percentage of sales revenue spent on research and development activities in 2009 was 2.6%.
The automotive sector has established a solid relationship with universities in this area; 92 of the interviewed enterprises, of which 44 were Piedmontese, stated they have recently started new projects in cooperation with academic research facilities. Moreover, there are strong signs that enterprises are cooperating with clients (30% of the sample states they are an important source for R&D activities, compared to 20% last year) and suppliers (10%, compared to 5.3% last year), and that they are open to "other" partners as well (10.6%, compared to 7.5%).
Enterprises reacted proactively in the face of the economic downturn: most of them proceeded to restructure and innovate the production process (58% of the sample), but many renewed the product portfolio (30%) and even offered clients new, innovative products that did not exist on the market before (13.4%).
Piedmont was particularly responsive, with 70% of enterprises undertaking at least one of these actions.

Amongst new offers and commercial opportunities, green technologies certainly hold a special place. In just one year, enterprises active in this field went from 12% to 23% of the sample: 72 in Piedmont and 150 in the rest of Italy.

The ingredients for success

While the crisis obviously affected the Italian automotive sector's results, we must note that some enterprises were able to defeat it (8% of the sample) or resist it (16% of the sample stated 2009 revenues were in line with those of 2008); many turned to innovation, new products, new partners and new markets.

From a more in-depth analysis of interviewees who claimed an increase in revenues, we can note that they are particularly active in the field of innovation (80%), both for cost reduction and productivity increase (63%) and for product improvement or new product development (about 40%).

These enterprises not only have ideas, but patent them (11.6%, compared to 4.9% in the whole sample) to defend completely new products (20%, compared to 13.4% in the whole sample). They are more sensitive than average to partnerships with other enterprises and suppliers, and to cooperation with universities. Many of them were given an advantage by a higher degree of product and client (both in Italy and abroad) portfolio diversification, and by a market presence that proved more solid than others': ranging from cars to the aftermarket.

These enterprises focus on green technology products more decisively than average (36.2% of them, compared to 22.6% of all interviewees).

Another positive feature that seems important is size. Breaking down the variations in revenue in the sample by size class shows that last year large enterprises lost 13.8%, medium ones lost 20%, small ones lost 21% and micro ones lost 18.4%.

Large enterprises have a product portfolio that is more up to date and rely on products that are not competitive anymore only for one fourth of their revenues (the figure is 50% of revenues for micro enterprises).

This can be tracked back to the fact they have more resources to put into R&D (2.8% compared to 2% in micro and small enterprises), and have a stronger penetration in international markets.

These will all be ingredients for success, to use in order to seize the opportunities that will emerge from the new phase Fiat is opening. The group has 26 billion euros on budget for investment capital expenditure in the next 5 years, plus R&D and Chrysler investments; including Chrysler's activities, it will purchase over 60 billion euros in goods and services. And this is an opportunity the Italian automotive sector is certainly capable of seizing.