

# ECONOMIC CRISIS AND THE AUTOMOTIVE INDUSTRY IN ROMANIA

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**Abstract:** *The economic crisis has affected many areas but the auto industry is perhaps one of the most affected. Renault, Ford, General Motors, Toyota, Volkswagen, BMW are just some of the big players caught unprepared. Through this paper we propose an analysis of the automotive market in Romania in order to understand the sales decrease of the last two years. At the same time we aimed at understanding the reasons that led to a decrease in car sales, what were the measures taken by the government to stop this phenomenon and how the economic crisis influenced the automotive field in Romania. An objective image of the situation in the automobile market in Romania at this moment also requires an analysis of the marketing environment and the changes it has undergone over time. Last but not least we will try to find a series of measures to re-launch the car market in Romania.*

**Key words:** *car sales, car market, economic crisis, marketing environment.*

## 1. A Short History of Contemporary Car

Europe, the place where the car was invented, is the one that started the game. America caught the ball and continued to mark unhindered. But the twentieth century brought the spotlight on a new world order in the automotive industry. The transition to the XXI century marks the decline of major automotive manufacturers and forming new alliances that will end, probably through mergers famous. As expected, the most important fusion of the past century had the spotlight on an American giant. When Chrysler merged with Daimler Benz, European manufacturer that owns the brand Mercedes, all analysts agreed that the event is the most important business in the

field machine century. The two companies have joined, across the Atlantic, huge turnovers, getting to dominate the continent.

The second period of 90's surprised GM in a growing conglomerate that seemed to be unstoppable after it managed to own, besides the American brands also European luxury brands such as Saab, Opel and Vauxhall, and Holden in Australia.

Fiat probably has the most tortured fate of Europe's major car manufacturers. Entered a major crisis in the early 90's, the company thought it would get rid of trouble by taking its shares to a giant in the field. Attempts have passed first through the evaluation stage of a merger opportunity with one of European firms.

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The management came to the conclusion that the markets would be foiled because many of Fiat models would compete with the possible partners. So they started to approach the two American giants, Chrysler and GM.

Renault is the most sold car in Europe, with a market share of around 10%. At group level, the French are in a strong expansion after the alliance with Nissan. In Europe, the VW group is still leading. With a history that binds strongly to Ferdinand Porsche and to the popular car ordered by Hitler, VW has four brands of weight (VW, Audi, Seat and Skoda) and three other luxury (Lamborghini, Bugatti and Bentley) and an European market share over 17%. The largest expansion of VW has been made in China, which controls much of the automotive market. The Japanese have captured also the auto world, reaching as some factories that have opened in the USA to be stronger than they were at home.

The five largest Japanese companies are controlled by Europeans and Americans. The only one who resists - and in excellent conditions - is Toyota, located in currently in third place worldwide, surpassing giants like GM and VW, and has managed to invent a luxury brand - Lexus - and get it first place in the U.S., while traditional brands such as Oldsmobile and Plymouth are gone.

## **2. Automotive Industry Crisis**

News on the influence of the crisis in the global economy on the auto industry have been around the world. Unfortunately, problems in this area are much older and serious enough not to leave only the account current crisis reasons restructuring closure of facilities and, overall, the downturn in world car. Long before the onset of the global crisis storm, car companies, especially the U.S. accused of

serious operating problems, all requiring a review of management.

### **2.1. How Did the Car Market Drop?**

The automotive industry crisis is part of a global financial downturn. The crises affected European and Asian automobile manufacturers, but it was primarily felt in the American automobile manufacturing industry. The automotive industry was weakened by a substantial increase in the prices of automotive fuels linked to the 2003-2008 energy crisis which discouraged purchases of sport utility vehicles (SUVs) and pickup trucks which have low fuel economy. The popularity and relatively high profit margins of these vehicles had encouraged the American "Big Three" automakers, General Motors, Ford, and Chrysler to make them their primary focus. With fewer fuel-efficient models to offer to consumers, sales began to slide. By 2008, the situation had turned critical as the credit crunch placed pressure on the prices of raw materials. Car companies from Asia, Europe, North America, and elsewhere have implemented creative marketing strategies to entice reluctant consumers as most experienced double-digit percentage declines in sales. Major manufacturers, including the Big Three and Toyota offered substantial discounts across their lineups. The Big Three faced criticism for their lineups, which were seen to be irresponsible in light of rising fuel prices. North American consumers turned to higher-quality and more fuel-efficient product of Japanese and European automakers. However, many of the vehicles perceived to be foreign were actually "transplants," foreign cars manufactured or assembled in the United States, at lower cost than true imports.

The automobile business is one of the most costly and complex to run. The industry produces a consumer product

annually in the tens of millions of units that is costly, complex and customized. The productive infrastructure required is both vast and exceedingly expensive. Before the onset of the Global Economic Crisis, the world's carmakers bet heavily on a rising global marketplace that could annually absorb up to 100 million cars annually, and leveraged themselves to the maximum extent to finance the creation of the global network of assembly plants, parts manufacturing factories and distribution networks. With the collapse in demand caused by the Global Economic Crisis, practically every major auto manufacturer is faced with the identical problem over-capacity that was established with high margins of leverage, leading to massive losses with a worldwide demand for only 50 million cars each year. The reaction thus far by the automakers is to besiege their governments with requests for massive bailouts, warning that without the public purse to cover their losses, the result will be layoffs, disastrous collateral damage to the overall economy and the extinction of the industrialized base. There is no easy solution to the massive economic problems impacting this now global industry. What is clear is that the auto industry is in the midst of a deep global depression. And while much of the reason for their distress lies with very bad business decisions and strategies, the leaders of the car industry are probably correct in claiming that their demise would bring about severe consequences. Unfortunately, there may be no alternative, as the issue may ultimately come down to who becomes insolvent first; the auto companies or the sovereigns being asked to bail them out.

### **3. Automotive Market in Romania**

After 60 years of automotive tradition, Romania, with an optimal positioning in

Central and Eastern Europe for increasing demand and automotive production, has a strong automotive industry with a modern and diversified supplier network. A new opportunity to develop further has arisen after Ford's takeover of the Daewoo Craiova plant. The Romanian automotive sector has known an important development during 2001-2008, mainly due to Renault's involvement at Dacia and its suppliers' investments. Following on their footsteps, more and more significant automotive suppliers decided to create production facilities in Romania. Taking into account that Renault decided to increase Dacia's production capacity to 400,000 vehicles per year that will be shipped to other Logan production facilities all over the world, and Ford's aim to produce 300,000 vehicles per year, growth of the automotive sector is assured, and Romania will manufacture the equivalent of 1.1 million vehicles in 2011.

#### **3.1. Sales Situation in 2000-2009**

With a population of 21,6 million Romania is the third largest market in terms of population in Central and Eastern Europe (CEE). The EU-entry of Romania has increased the attractiveness of the market dramatically, especially in the new car segment, the aftermarket and as a production base. Romania today is characterized through one of the largest car parks in CEE. Car penetration, however, is comparably low, which suggests a heavy backlog demand for new and used cars. As in most other CEE markets, their park is relatively old and import of used cars is common.

New car sales have kept an upward trend between 2000 - 2007, culminating in 2007 when there were an estimated 315,621 new cars. The economic crisis has left its mark on the automotive industry. The year 2008 marked the beginning of the decline in car

sales, which is 14.17% lower than the previous year. Looks like 2008 was only the beginning of this phenomenon because a year later, sales had reached only 130,193 new cars, which means a figure

similar to that recorded with 5 years ago. Compared with 2008 in 2009 there were 51.95% less sold cars.

How did this situation happen we will try to show in the next chapter.

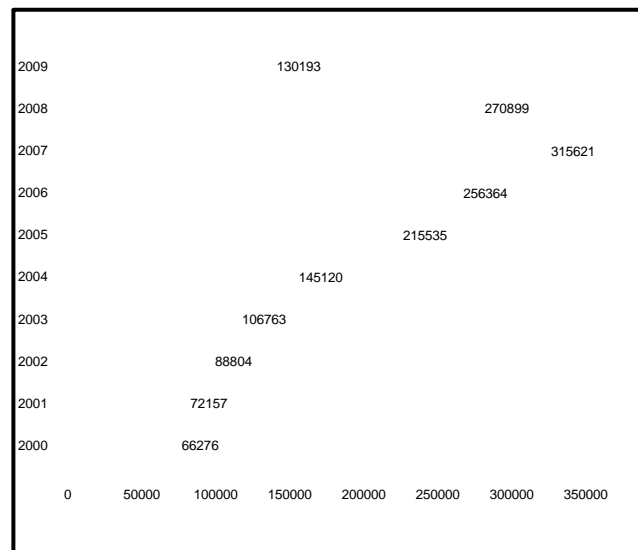


Fig. 1. *Car sales during 2000-2009 in Romania*

### 3.2. The Marketing Environment Influence on Car Sales

Nobody can say with certainty what were the reasons leading to this phenomenon. But for this, we can try to find some factors that led to the situation where we are today. The economic crisis is perhaps the most important factor in the decrease in the number of sales. There were, however, other aspects that have made the auto industry to be one of the most affected areas of national economy.

#### 3.2.1. The Economic Environment

Car leasing decreases, the number that no longer can pay rates increase and the profile of companies in shifting attention to

other economic sectors. These are some of the characteristics of the leasing market development in Romania earlier this year. Car leasing decreases, the number that no longer can pay rates increase and the profile of companies in shifting attention to other economic sectors. These are some of the characteristics of the leasing market development in Romania earlier this year.

Financing vehicles declined in 2009, with 75% to 839.6 million euros from 3.38 billion euros in 2008. For many leasing companies, the number of recovered cars from the bad-paying customers increased by 60% last year. This all comes back against the auto industry because car companies recovered from bad payers become a crucial competitor for car dealers.

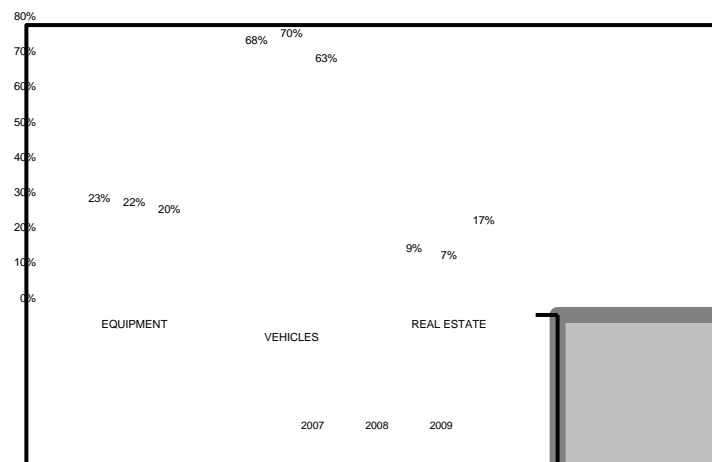


Fig. 2. *Leasing market during 2007-2009 in Romania*

Lending restrictions imposed by the central bank made getting a loan even more difficult than before. They provide that all monthly expenses with a consumer credit must not exceed 30% of net monthly income. Credit-related expenses for an investment property must not exceed 35% of the same income and the amount of any debts contracted by the client should not exceed 40% of the same net monthly income. All these reasons have made it difficult to access credit and this has left its mark on the auto industry by subtracting the number of car sales.

### 3.2.2. The Political Environment

Instability in the political environment and lack of concrete measures to revive the auto industry also led to the decline in car sales. The year 2008 brought several conflicting measures on pollution tax. Changing the current tax didn't nothing but

opening the door to massive imports of used cars, action which will have negative impact on the environment, traffic and automotive industry in Romania. This accompanied by acute lack of measures to boost sales encouraged massive importation of used cars to the detriment of sales of new cars.

The volume of imports of second-hand cars has appreciated by over 107% in first seven months of 2008, in the conditions in which the new pollution tax took effect on July 1, which replaced it on the first plate, set at January 1, 2007. German brand Volkswagen and Opel cars were the most popular second-hand cars sold in Romania, and Dacia the most wanted by customers who prefer a new car, it is clear from the statistics on registrations in the first seven months of 2008. Let's see the situation of new cars and second hand cars registration in 2008 and 2009.

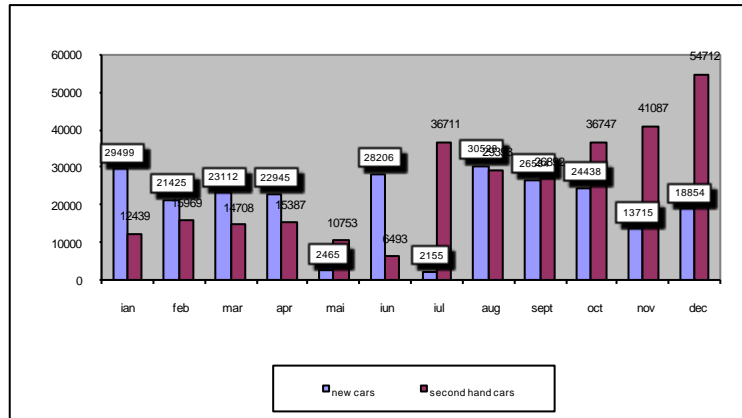


Fig. 3. *New VS second-hand car registration in 2008*

In the last two years, the measures taken by the government, as the statistics shows have proved more than contradictory.

Thus, we faced both with the reducing, or the increasing of car registration, even if we speak about second-hand or new cars.

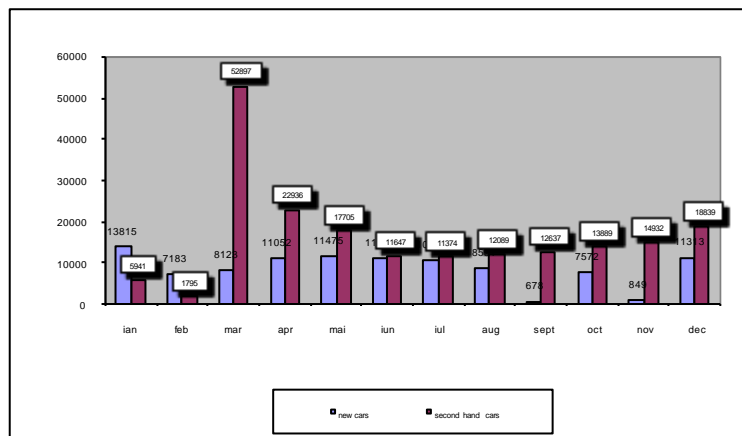


Fig. 4. *New VS second hand car registration in 2009*

### 3.2.3. The Cultural Environment

In an era when cars became the main means of locomotion, cycling and walking alternatives seem just some limpness in front of their main competitor.

National fleet increased by 5% last year, a volume of over 5.3 million vehicles, according to statistics, despite the fact that the auto market in 2009 was the year with the strongest decreases in sales, up to 60%. At the end of last year about 60 out

of 100 households in Romania have come to own a car, "density" similar to vacuum cleaners dust and almost three times higher than that of bicycles.

Two-wheeled vehicle failed to win in Romania and to enjoy the popularity it has in the Netherlands, where cycling is senior, and where transport is mainly on two wheels. Romania is one of the last position in terms of possession of a bike, according to a study by research company Euromonitor International. Last year a total

of 7.5 million households, only 1.86 million have at least one bicycle, up 60% from 2003. For comparison, the national fleet has over 4.3 million cars.

Lexus, Maseratti, Mercedes, Ferrari, although these are cars that many people see only in movies or magazines ,Romanians are willing to pull quickly out of their pocket tens or even hundreds of thousands of euro to buy a luxury car.

According to statistics, in the first three months of 2008 we had sold 42 Lexus

limousines, double that of 2007. For Maseratti increase was even more spectacular: it sold four times as many cars, that is, a total of eight. The rich have made enough space in their garages for 30 Porche. Nor sales at the premium cars have gone wrong in early 2008. In the first quarter, we had 74 Mercedes Benz S class and 16 Audi A8 bought. The offer is completed by brands such as Bentley, Lamborghini or Ferrari.

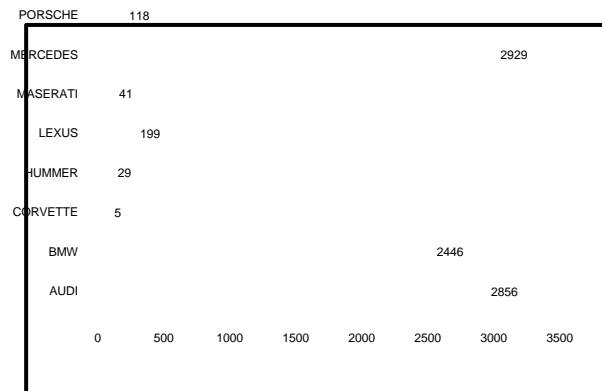


Fig. 5. *New luxury car sales in 2008*

With the coming of the economic crisis, sales have fallen dramatically. If in 2008 Audi sold 2856 cars in 2009 only 1188 were sold and the same is true for all

luxury brands. We can say that the economic crisis has affected sales at a rate greater than 60% or more.

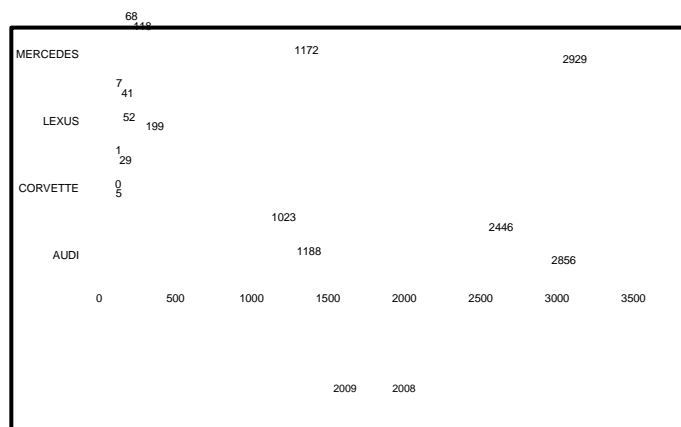


Fig. 6. *New luxury car sales in 2008 vs 2009*

### **3.2.4. Marketing Microenvironment**

Customers are obviously the key to sales. Organisations and industries survive on the basis of meeting the needs, wants and providing benefits for their customers. Failure to do so will result in a failed business strategy. Lack of concern for customer made many people move to other countries in order to buy a car.

Customers were not the only ones that have influenced changes in the auto industry. Employees, suppliers, shareholders, media and competitors, all were influenced by the economic crisis. And so, step by step, everything that has been built in a decade began to crumble under the action of all these factors.

## **4. Measures That Can Revive the Automotive Market in Romania**

A plan to reinvigorate the auto industry is not only vital to its survival but that of the nation. Any plan to revitalize the auto industry must include emergency measures to rescue the sector and then provide a path for future expansion and development relying on new technologies and an educated young work force.

### **4.1. We Need to Focus on Market Realities**

The critical steps needed to ensure the survival of the industry will require an adjustment for the shareholders, the dealer network, employees of the companies, the supply chain and new domestics. The first step is to take a hard look at what the demand for autos will be for the next seven years. This estimate is essential to establishing a plan to drastically reduce the size of the companies to fit the realities of the market

Short-term forecasts in Europe are in no way optimistic, but perhaps that things will return to normal within two to three years. Agitation of the market has quite a few cases and we can not say which is most important. The investments required by the UE regarding CO2 emissions made most of the players, from a financial perspective build new engines and new cleaners. Many manufacturers have come together to develop cheaper engines. Most of the models share the technical platforms with partners more or less traditional. Although we can't forget the public pressure to develop new and more efficient cars. It is possible to participate in some relocation of factories from Western to Eastern Europe. Any reduction in costs will be fully speculated, and wages are one reason. But medium and long term auto industry will recover, will regroup forces and the world's population will continue to buy vehicles, although manufacturers will have to make them cheaper, cleaner and safer.

### **4.2. The Pollution Tax**

An important lever by which government can act to support auto industry, affected by international financial crisis, is to amend legislation on the pollution tax. Removing the pollution tax for new cars and increasing that of second-hand might, in time, lead to increased sales of new cars.

### **4.3. We Need Fresh Workforce**

The aging of our automotive work force is a fact that points to a time in the very near future when these companies, as well as their supplier base, will face critical shortages of skilled workers. We need to make the factory floor an attractive place to work and encourage young people to pursue jobs in engineering and manufacturing. We need a continuing



education program that keeps the work force current in technology advances. This new work force must be knowledgeable in dealing with the latest technology in both the machines they use to build tomorrow's cars for America and in the cars themselves. New fuels that reduce our reliance on foreign energy while addressing green issues must be explored. We need to make this a generation of personal travel that can only be built on tomorrow's manufacturing technology.

#### **4.4. Clean Technologies for Our Cars**

In recent years, increased concerns over the environmental impact of gasoline cars, along with reduced consumer ability to pay for fuel for gasoline cars, has brought about renewed interest in electric cars, which are perceived to be more environmentally friendly and cheaper to maintain and run, despite high initial costs. People are increasingly concerned about environmental problems and their care may influence the choice of a car. A new electric car industry is building and car manufacturers are planning to deploy a new fleet of fuel efficient alternatives. The electric car race is on, and it's been brought to us by our own costumers. Sales for Toyota and Honda climbed during the economic crisis. The 2010 Toyota Prius and the 2010 Honda Insight made huge gains.

#### **4.4. Continuing the National Program of Fleet Renewal**

The national fleet renewal was a breath of air for the automotive industry suffocated by falling sales. The transferable voucher system and the 3.800 Ron given by the Government also encouraged the purchase of new cars. Just a week after the start of this year's edition of fleet renewal program on February the

20th, the number of cars delivered amounted to 10,000 units, according to the Ministry of Environment.

#### **4.5. NBR Reviews of Rules on Loans**

The loan rules imposed by the NBR were another obstacle for those who wanted to buy a new car. These rules were an impediment not only for companies and individuals but also leasing companies. Leasing companies have been unable to approve such cases precisely because central bank rules. Besides that the private companies are also to be blamed as encouraging the illegal work and the non-transparent pay system who led to failure in approving leasing files because people weren't compatible with the national bank rules.

#### **5. Conclusions**

The automotive industry is no stranger to change. Many of the changes occurring in the global marketplace today - tightened credit markets in a capital-intensive industry, declining consumer confidence, increased government involvement - are the most recent manifestations of this reality.

The combination of these new realities with familiar industry challenges such as volatile raw materials costs and fuel prices, tighter regulations, capacity and sourcing challenges and the need to satisfy consumer demand for cleaner, greener cars, have combined to create a business environment that has had a profound effect on the global automotive industry.

2009 was certainly a challenging year for the auto industry. 2010 promises to be no less challenging as companies that have survived the brunt of the downturn must now prepare for a volatile future, requiring new approaches in most everything that automotive companies do, from reporting

to their stakeholders and the investment community at large, to making decisions about their tax and legal structures in a depressed market, and to re-thinking their business structure entirely to eliminate complexity that hinders competitiveness and stifles innovation.

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