

# China's struggling automakers jump on SUV boom (Update)

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In this Saturday, April 20, 2013 file photo, a model poses with a Great Wall H7 SUV at the Shanghai International Automobile Industry Exhibition (AUTO Shanghai) media day in Shanghai, China. SUV sales in China rose 20 percent last year to 2.5 million vehicles, more than double the 8 percent growth of the overall auto market, according to LMC Automotive. SUVs made up 18 percent of all vehicles sold. Great Wall Motor Co., has become the Chinese industry's breakout success on the strength of its SUVs. The company, headquartered in Baoding, an industrial city southwest of Beijing, said SUV sales in the first three months of the year rose 95 percent over a year earlier and accounted for half the 180,000 vehicles it sold. (AP Photo/Eugene Hoshiko, File)

BYD is known for electric cars but this year's flagship model is the S7, a gasoline-powered SUV. It comes with an interior air purifier, radar to help with backing and digital TV. An onboard hard drive can hold 1,000 films.

This is China's Year of the SUV. Whatever their specialties used to be, automakers ranging from global brands to China's ambitious rookies are scrambling to cash in on the explosive popularity of sport utility vehicles.

"We are selling vehicles that have extensive technologies," said Isbrand Ho, BYD's director of export sales. "These are all on ... premium models for European marques but we are making it available to the everyday person."

The SUV boom clashes with Beijing's efforts to push automakers to develop electric cars and to sell smaller vehicles to help curb smog and demand for imported oil. But the SUV's image of safety appeals to prosperous Chinese drivers who face chaotic city streets while electrics from BYD and other producers struggle to attract buyers.

The fatter profit margins for SUVs are a financial lifeline to a Chinese industry that is being squeezed as global brands make inroads into their market for smaller cars.

"You've got almost everyone targeting SUVs," said analyst Namrita Chow of IHS Automotive.

SUV sales in China rose 20 percent last year to 2.5 million vehicles, more than double the 8 percent growth of the overall auto market, according to LMC Automotive. SUVs made up 18 percent of all vehicles sold.

That market share could rise as high as 25 percent in coming years,

according to Yale Zhang, managing director of Auto Foresight, a research firm in Shanghai. That would be double the size of SUVs' 12.5 percent share of the U.S. market last year.

Overall, Chinese drivers bought more than 19 million cars last year while Americans bought 14.5 million. The United States still is the biggest market in financial terms, though China is expected to pass that soon. By 2020, automakers and analysts expect China's annual sales to rise from current levels by 13 to 14 million vehicles—more than all growth in the U.S., Brazil, India, Russia and the Middle East combined.

In China, General Motors Co. expects annual SUV sales to reach 4 million by 2020, said Bob Socia, president of GM's Chinese arm.

"We are focusing on two key markets—luxury cars and SUVs," said Socia. "They used to be considered niche markets but now they are mainstream."

Global automakers are redesigning SUVs for China with smaller engines in response to government taxes based on engine size.

Ford Motor Co. plans to manufacture two of its four SUVs, the EcoSport and the Kuga, in the southwestern city of Chongqing. Its Edge SUV will be imported from Canada and the Explorer from the United States.



In this Saturday, April 20, 2013 photo, a model poses with the new Landwind X5 SUV at the Shanghai International Automobile Industry Exhibition (AUTO Shanghai) media day in Shanghai, China. SUV sales in China rose 20 percent last year to 2.5 million vehicles, more than double the 8 percent growth of the overall auto market, according to LMC Automotive. SUVs made up 18 percent of all vehicles sold. (AP Photo/Eugene Hoshiko)

"We now have our full range of the SUV family here," said David Schoch, Ford's president for the Asia-Pacific region.

Italy's Fiat SpA, a latecomer to China, is hoping an SUV will help it gain a foothold in a market where it set up its first joint venture just three years ago. The Freemont, based on the Dodge Journey, was unveiled at last month's Shanghai auto show.

Also at the auto show, global automakers including Mercedes Benz and Nissan and local brands such as Geely Holding Group, which owns Sweden's Volvo Cars, and Great Wall Motors Co. showed new SUVs or SUV concept vehicles.

The SUV boom is a detour from Beijing's automotive master plan for China to become a leader in electric cars.

Chinese leaders want to clean up smog-shrouded cities and rein in reliance on oil and gas imports they see as a strategic weakness. Rising gasoline demand as auto ownership spreads pushed China past the United States to become the world's biggest energy consumer.

In 2009, Chinese leaders set a goal of producing up to 5 million electric vehicles a year by 2020 but have informally backed away from that after development proved tougher than expected. BYD, the Chinese leader in electric vehicles, sold just 1,700 electric cars and 700 electric buses in 2012 and says it expects to triple that this year.

"They're going to continue to push it. But it hasn't taken off like they had planned," said GM's Socia. "Progress has been a little slow."

A few Chinese SUV buyers drive off-road, but most see them as protection against traffic.

"Chinese consumers love SUVs. They see them as safe family cars," said Chow of IHS Automotive. "The idea is, If I buy the best I can afford, I am buying the safest."





In this Sunday, April 21, 2013 file photo, visitors try out various SUVs at the Shanghai International Automobile Industry Exhibition (AUTO Shanghai) in Shanghai, China. SUV sales in China rose 20 percent last year to 2.5 million vehicles, more than double the 8 percent growth of the overall auto market, according to LMC Automotive. SUVs made up 18 percent of all vehicles sold. (AP Photo/Eugene Hoshiko, File)

The SUV boom could be especially important to China's own automakers, who are struggling as global rivals launch new models aimed right at their traditional low-price market segment.

Because they are bigger and heavier like trucks, SUVs are treated more leniently by government rules on fuel efficiency and emissions. That makes them less expensive to produce and helps automakers that are less technologically advanced than foreign rivals.

Great Wall has become the Chinese industry's breakout success on the

strength of its SUVs.

The company, headquartered in Baoding, an industrial city southwest of Beijing, said SUV sales in the first three months of the year rose 95 percent over a year earlier and accounted for half the 180,000 vehicles it sold.

That gave Great Wall, at least temporarily, the global auto industry's fattest gross profit margin at 28 percent, according to Bernstein Research analyst Max Warburton.

With its electric car business sagging, BYD is stepping up emphasis on SUVs. In addition to the S6 and S7, it has two more on the drawing board.

The company, in which Warren Buffett's Berkshire Hathaway Corp. owns a 10 percent stake, blamed intense competition for a 94 percent plunge in last year's profit last year.

BYD expects to double this year's S6 sales in foreign markets such as Russia and Egypt to 50,000 vehicles, said Ho, the export director.

"The SUV market has a big attraction in Russia, Ukraine, the Middle East. They want a four-wheel-drive for the snow and sand," he said.

The company also is developing four-wheel-drive technology that powers two wheels with an internal combustion engine and two with an electric motor, eliminating the need for a drive train that takes up floor space, Ho said. He said the electric motors also will act as brakes.

"This is going to be a unique approach to four-wheel-drive," he said.

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