

ABC/Sikora Interview with WIRTSCHAFTBLATT

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The technology gap of Chinese car with European standards is getting smaller

Company Profile

Michael Sikora is managing director of Shanghai Automotive Business Consulting (HK) Limited, a technical services provider for mid-sized automotive suppliers, importers and car manufacturers.

Since 2005 Sikora has been working and living in Shanghai. Sikora and his six Chinese colleagues are working for customers in China and Europa. As for his service company he does not experience an economic crisis. The company also set up a technical purchasing unit for Austrian companies.

The Interview

Subtitle

Michael Sikora, advising car manufacturers and car importers in Shanghai is talking about safety of Chinese cars, opportunities for Austrians importers and and what Chinese OEM Great Wal Motors has achieved.

WirtschaftsBlatt/Mr.Robert PRAZAK:

Mr. Sikora have you seen some progress in the offerings of Chinese car manufacturers?

ABC/Michael SIKORA:

In the past three years, we have seen progress in car design, manufacturing quality and model acceptance by consumers/car importers of other countries. The technology gap between Chinese cars and western models are getting smaller in in many areas. As for structural/passive safety issues, there is still some room for improvement, but frankly speaking, Chinese cr makers have already done a lot to make their cars safer. For example, even Chery mentioned during the recent auto show, that the company will introduce ESP (Electronic Stability Program) for its new models soon. General speaking, all carmakers are constantly working to improve production systems and processes.

WirtschaftsBlatt/Mr.Robert PRAZAK:

What are still the largest challenges for Chinese OEM to get a foothold in the European market?

ABC/Michael SIKORA:

It is primarily the lack of regional market understanding. I think all of Chinese carmakers must learn more what are the specific needs and expectations of Austrian or German car buyers. This is a quite similar situation as it was when the Korean carmakers entered Europe some time ago. In order to meet the expectations of European customers, it could be wise to set up an European design and test center like Hyundai did with its European design center in Germany, Rüsselsheim or Kia Motors in Frankfurt.

WirtschaftsBlatt/Mr.Robert PRAZAK:

The technical convergence is happening?

BC/Michael SIKORA:

The recent Shanghai auto show has revealed that some models are getting quite similar to western ones. For instance, some carmakers already use fine materials for the cockpit and instrument panels, designed and manufactured it in a robust way, or even the front and back seats feels stable while driving. The air nozzles look neat and can be smoothly adjusted without replying an unpleasant turning feeling. Overall Chinese designer already give more attention to material surfaces and haptic of cars.

WirtschaftsBlatt/Mr.Robert PRAZAK:

What do Chinese manufacturers plan next?

ABC/Michael SIKORA:

We see already a clear trend that some Chinese manufacturers are developing in the direction of becoming an international and global operating OEM. Specifically, I like to mention Great Wall Motors, which had made a great leap forward in recent years. With its modern supermini hatchback model Florid, GWM is making a very good impression. Rather disappointing is Chery Automobile which seems to have lost recently its steam of progress (and also sales lead in the local market).

WirtschaftsBlatt/Mr.Robert PRAZAK:

But there is no more hype about Chinese carmakers in Europe, isn't it?

ABC/Michael SIKORA:

Initially, there was actually a huge hype phase - and also some fear - in Europe and the market expectation from early importers in 2006. In the meantime, both sides have learned from each other and a more realistic picture has evolved. Fact

is that the technology gap has become smaller.

WirtschaftsBlatt/Mr.Robert PRAZAK:

When do we expect Chinese cars to enter European market on a large scale?

ABC/Michael SIKORA:

Certainly not this year, not even at the beginning of next year. I expect market entry of Chinese carmakers working together with prestigious importers earliest at the end of 2010 . I am predicting that two brands have a good pole position: Chery Automobile and Great Wall Motors.

WirtschaftsBlatt/Mr.Robert PRAZAK:

With which kind of car in wich class?

ABC/Michael SIKORA:

Because of the European scrapping bonus and consumer preferences in economic difficult times and other reasons, it will be certainly the A and B-segment. Chinese models should be better equipped to compete against the low-price model Dacia Sandero. A big question still remains which results the next crash tests in Europe shall prevail for this compact cars.

WirtschaftsBlatt/Mr.Robert PRAZAK:

Are European importers are still interesting in importing Chinese cars?

ABC/Michael SIKORA:

I see still a great interest but I also predict that prestigious European importers shall be patient and assess carefully with wich car maker they should proceed to avoid to back the wrong horse and to hurt their brand image.

WirtschaftsBlatt/Mr.Robert PRAZAK:

In which countries are likely to be the first ones for product launches?

ABC/Michael SIKORA:

Currently, I cannot foresee that major mature Western European car markets such as Germany, Benelux countries and France are the primary target for Chinese carmakers. I assume that countries such as Spain, Italia but also Austria shall be first test markets for Chinese OEM.

WirtschaftsBlatt/Mr.Robert PRAZAK:

What business opportunities could be at the start of Chinese imports for Austrian companies?

ABC/Michael SIKORA:

Especially in the field of parts logistics I see some opportunities. The profit and

brand reputation of manufacturers will stand or fall with an intelligent spare parts logistics system. Chinese OEM already know that only experienced car importers are attractive ones. Without an intelligent warranty systems and spare parts service nothing works in Europe. The geographical advantage of Austria is its close proximity to the European sea port of Koper in Slovenia. Companies like Wolfgang Denzel group could benefit from their strength and experience in the parts logistic business. I see a basic understanding of Chinese carmakers on this subject but what I currently still see is a lack of the understanding that it needs more than an larger importer. There a also some investments to be done from the Chinese side (brand building, European design center, close cooperation with European safety organisations such as ADAC and ÖAMTC).

WirtschaftsBlatt/Mr.Robert PRAZAK:

How about the Chinese car market?

ABC/Michael SIKORA:

We all have been quite surprised that in spite of global economic crisis and reduced-growth rate in China, sales has sky-rocket in the first four month in China. The market has grown significantly and we predict that the ten million sales mark shall be cracked end of this year. That happens because of the wise central government promotion and support programm for purchase of small cars, mini- and micro buses. We also saw a quite huge growth in the SUV segment.

WirtschaftsBlatt/Mr.Robert PRAZAK:

How about the prospects of European manufacturers?

ABC/Michael SIKORA:

VW-Shanghai shall also surpass the one million sales mark, but other large foreign manufacturers are stagnating at a high level. Also in the C-segment the market is still growing, but not at the same rate such in the small and compact car class. In the low-price segment of 5.000 Euro, Chinese car makers have better chances than their Western peers as specific government subsidies government helps local car makers to learn and grow.

The interview was conducted by Robert Prazak/Wirtschaftsblatt