

## The Motor Industry: What is the future?

Professor Mike Sweeney

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**Steve Macaulay** Today we are going to look at the motor industry. It has always had a bit of glamour about it, but more recently there have been criticisms from almost every quarter – from the environmentalists and from people saying that they just can't make any money.

Now, for a long time, Professor Mike Sweeney has looked at the motor industry. Now, Mike there is lots of change going on there?

**Mike Sweeney** Dramatic changes and they are a consequence of global competition. These changes are really a consequence of the reduced margin that companies are making and the need for them to develop new cars more rapidly. And that all takes money. So we are seeing dramatic changes in the motor industry and its structure.

**Steve Macaulay** Lots of dramatic headlines too; look at Toyota and all their recalls.

**Mike Sweeney** Yes; Toyota is an interesting case study really. Toyota had a very clear vision and focus and it succumbed to competition and the success it achieved in terms of leading the world in terms of sales of cars. As a consequence it switched its focus to growth rather than to quality and we have seen the results in terms of the reputation of Toyota now.

**Steve Macaulay** Now there have been lots of things going on under the bonnet, as it were, between businesses and forming partnerships in the motor industry. Can you give us some insights into that?

**Mike Sweeney** Yes, it is a very interesting stage now. The industry is restructuring, we are seeing competitors collaborating. For example, if we take Nissan, Renault and Daimler, they have taken shares in each company, they are going to develop new engines and electric vehicles and they are using their capacities to make engines for each other's products. So that collaborative process is one indicator of what is taking place in many parts of the world now.

**Steve Macaulay** Now over-capacity seems a bit issue in the motor industry?

**Mike Sweeney** Yes, and that is the reason why we are seeing these companies collaborating. There is spare capacity in their factories and so what they are doing is to share components and engines and major parts of cars so that they can reduce the costs – their costs – in each of their plants and supply their competitors. Of course, that doesn't affect the brand, what we see is the brand staying the same, but the components and the engines being shared across competitors.

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**Steve Macaulay** Let's deal with the motor car and the environment. We have talked already a little bit about the electric vehicles, about companies producing more energy efficient cars – what is going on there?

**Mike Sweeney** Well these developments are being encouraged by governments and so governments are making funds available, which is attractive to these firms. But also, of course, new product development is extremely expensive and if we take the small car market, the compact car market – that is where we are seeing electric vehicles starting to be developed – it is extremely expensive. So the ways in which they can overcome the costs is to share the costs between collaborators and in that way they reduce the original costs for development and obtain attractive product offerings in the compact car market.

**Steve Macaulay** Now we have seen lots of publicity about some of the developing economics – China, India – and, certainly in the UK, we seem to be seeing a lot more cars produced from Korea. Are there things going on there that we need to be aware of?

**Mike Sweeney** Yes, I think the things are that the two markets, if you were looking for growth and increased profitability, the two markets that you are going to look at as a global business would be India and China. Both countries demand that there are joint venture arrangements and agreements between global manufacturers and local manufacturers in those countries. So what we are seeing is these countries moving towards – and actually have established – joint ventures for the provision of small cars, electric vehicles and small cars – compact cars – for those markets where there is a lot of growth. Huge growth in fact.

**Steve Macaulay** So if we look ahead, what do you see in a few years' time? There has been a lot of trouble, a lot of strife, a lot of changes of companies – what are we going to see?

**Mike Sweeney** Well, of course, this is speculation and so this is just a personal view. I think there are indicators to say that there will be more collaboration, but this time although Europe is leading the way in these collaborative agreements, think they will stretch to America because it is attractive for collaborative organisations in Europe to have a partner in America – it is a very important market. And of course, there will be collaborative agreements already established in terms of the Chinese and Indian markets.

So we will see more collaboration and those companies that don't collaborate will be the ones that disappear from the market or be subsumed into those ones that are successful at collaboration.

**Steve Macaulay** Mike, thank you very much.

**Mike Sweeney** A pleasure.

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