The truck industry in 2020

How to move in moving markets
Contacts

Berlin
Michael W. Rüger
Partner
+49-211-5300-193
michael.w.rueger@strategyand.pwc.com

Chicago
Evan R. Hirsh
Partner
+1-312-578-4725
evan.hirsh@strategyand.pwc.com

Florham Park, NJ
Marian Mueller
Partner
+1-973-410-7659
marian.mueller@strategyand.pwc.com

Frankfurt
Richard Viereckl
Partner
+49-211-5300-123
richard.viereckl@strategyand.pwc.com

Hong Kong
Bill Peng
Partner
+86-10-6563-8300
bill.peng@strategyand.pwc.com

Kuala Lumpur
Anshu Nahar
Principal
+91-22-6128-1154
anshu.nahar@strategyand.pwc.com

Moscow
Steffen Leistner
Partner
+7-985-368-78-88
steffen.leistner@strategyand.pwc.com

Munich
Jörg Krings
Partner
+49-89-54525-574
joerg.krings@strategyand.pwc.com

Paris
Rich Parkin
Partner
+33-1-44-34-30-47
rich.parkin@strategyand.pwc.com

São Paulo
Luiz Vieira
Partner
+55-11-5501-6212
luiz.vieira@strategyand.pwc.com

Shanghai
Gerd Möhrke
Principal
+8621-2327-9800
gerd.moehrke@strategyand.pwc.com

Stockholm
Fredrik Vernersson
Senior Executive Advisor
+46-708-969584
fredrik.vernersson@strategyand.pwc.com

Tokyo
Toshiya Imai
Partner
+81-3-6757-8600
toshiya.imai@strategyand.pwc.com

About the authors

Michael W. Rüger is a partner with Strategy& in Berlin, working with the firm’s automotive practice. He is an expert in strategic and organizational transformation and operational excellence. He led the production practice at Management Engineers, where he developed and implemented manufacturing solutions.

Fredrik Vernersson is a senior executive advisor with Strategy& and managing director of the firm’s Stockholm office. He specializes in strategy, organizational transformation, and operational improvements, and he leads Strategy&’s practice for automotive, industrial, and transportation clients in the Nordic region.

Colin Brash is a senior associate with Strategy& in London. He works with clients in the automotive, transport, and defense sectors on matters of strategy, operations, and technology.
The global recovery from the economic crisis has major implications for the commercial vehicle and tractor-trailer manufacturing industry. There are, essentially, two worldwide markets for trucks in the near future. The first, in Europe, North America, Japan, and other industrialized East Asian nations, is characterized by a high level of environmental regulation and sophisticated demand for technological improvements and other features, including emerging “connected car”–style innovation. However, this is a slow-growth market, bound by limited demand for the foreseeable future.

Faster growth will be found in the BRIC countries (Brazil, Russia, India, and China), and the threshold countries of other emerging markets in Asia, Africa, and Latin America. Mexico is a prominent example. The markets for trucks in these countries are highly cost-conscious, and they are less interested in features. Truck makers in China and India, in particular, are producing the sorts of vehicles that succeed in these markets — vehicles that are “good enough.” They are high in basic reliability and safety, but short on amenities and features, and they are often well suited to the imperfect infrastructure of emerging markets.

The original equipment manufacturers (OEMs) in the industrialized world face a significant challenge. On the one hand, they must innovate effectively enough to compete in mature economies with low environmental impact and well-designed digital features. On the other hand, they must find a way to enter high-growth, low-cost markets, which will often mean adjusting their operating models and product concepts. Truck makers in India and China are already there.

The situation in China is particularly daunting for competitors. Local OEMs there have built overcapacity for a rapidly growing Chinese market — which has now slowed. They have every incentive to move internationally and to compete on price. It will be very difficult for international OEMs to counter this, since they cannot compete effectively on given product costs. In the long run, this will establish
some Chinese truck makers as significant global players, able to compete not just in the low-cost tiers, but in higher-end markets as well.

Global truck makers thus have a few imperatives to keep in mind. Avoid India and China as markets. Innovate and revamp production. Expand your presence in countries you already know, and find better ways to compete there. Develop low-budget trucks, which will require a shift in operating models and other parameters; no incumbent company from an industrialized nation has yet done this successfully. But for those that can make the transition, an enormous global opportunity is available.
Introduction

During the economic crisis of 2007–10, the global truck market contracted. Around 2013, it appears to have stabilized, and there is reason to expect further growth averaging 3.7 percent or more annually between 2014 and 2020.

Transportation is greatly affected by large-scale political, social, environmental, and economic changes — the major global trends that shape the business environment. Although these trends are similar across the globe, they affect different regions in different ways. Therefore, the road ahead for large commercial vehicles looks different from one country to the next.

In that context, each industry player will have its own potential road to success. To help craft an effective strategy for your own starting point and chosen destination, you should consider five major factors:

• The evolving business environment (global trends)
• The potential demand for trucks in every country (sales and markets)
• The needs and preferences of truck owners and operators (customers and products)
• The operational opportunities (production and manufacturing)
• Environmental concerns, safety features, and Internet connection (innovation)
Global trends

The big drivers of global business have major influence on the commercial vehicle business. Several global-scale trends in particular — related to climate protection, competition for resources, social change, and demographic shifts — are fundamentally changing the rules of global competition for the truck industry (see Exhibit 1, next page).

The concern about climate change, coupled with environmental regulation, has led to a new level of commitment to increase fuel efficiency and reduce emissions. New engines are being developed to comply with limits on nitrogen oxides (NOx) and particulates that were set by the U.S. Environmental Protection Agency in 2012. The greatest challenge remains regulatory differences: Some regions have tougher limits than others.

The use of alternative powertrain technologies — using natural gas, hybrid drives, or fuel cells — is becoming more prevalent. Persistent air pollution, particularly in major cities, could ultimately lead to a driving ban on heavy trucks. One possible solution is to build lighter vehicles; another is to increase interoperability among different-sized trucks: for instance, using mini-containers that can be swapped from heavy to light vehicles.

Characteristics of infrastructure, of vehicle ownership, and even of truck drivers are changing, and these trends point to the development of new kinds of trucks to match. The long-haul truck is becoming more of a living space for drivers and their families, and so needs to be suitably equipped. As digital technologies take hold, including for medium- and heavy-duty trucks, there is a shortage of skilled drivers, with an associated need to provide driver support.

Broad social and economic changes are also affecting the truck industry. The economy is becoming more globalized: Middle classes are shrinking in mature economies and growing in emerging markets. Changes in consumer behavior in the emerging markets, where large numbers of people are mirroring affluent Western lifestyles, are leading to more call for small, time-critical deliveries. Migration flows among nations
Exhibit 1
Global trends and their impact on the truck industry

Demography and wealth
- Growing middle class in emerging nations will drive consumption and goods transport volumes
- Urban access restrictions will lead to new truck concepts

Climate, energy, and resources
- Increasingly strict emission limits will drive powertrain development
- Focus on greenhouse gas targets will emphasize fuel economy and alternative power sources

Society and culture
- Connected trucks provide digital aids for drivers and fleet managers
- Rising expectations of online consumers will change the shape of demand for goods transport

Source: Strategy& analysis
are expected to increase, and people are expected to live longer. All of this presents a new challenge for logistics: For example, it is likely to mean an increase in the number of trucks on the roads.

Growing urbanization and the associated increase in transport volume will make new distribution networks with integrated logistics concepts necessary. Multimodality will increasingly be needed to transport goods via multiple channels and to move them rapidly from rail to road to ship to air freight. To spread the movement of goods more evenly over time, particularly where infrastructure is already under strain today, trucks also need to be optimized for nighttime goods distribution. For the global truck industry, in short, the challenge is to transport a significantly higher volume of goods and to develop new transport concepts.
Sales and markets

Although growth is expected overall between now and 2020, there is no stable environment coming for the global commercial vehicle market. The truck industry, and especially its original equipment manufacturers (OEMs) will therefore have to negotiate a tricky balancing act. They will need to be prudent when entering into new obligations, and at the same time prepare themselves to grasp appropriate market opportunities as they present themselves. Most important, they should focus on emerging markets, which are expected to drive global sales growth (see Exhibit 2, next page).

In the Triad countries (North America, Europe, and Japan), truck sales volumes will remain subdued. The financial crisis had far-reaching effects: Between 2006 and 2009 alone, sales volumes in Canada, the U.S., and Mexico collapsed by more than 60 percent. By 2011, four years after the crisis, Triad volumes had not yet recovered to 2006 levels. The NAFTA countries are recovering only gradually, and Japan's anti-deflation policy can promote growth only to a limited degree. Plenty of patience and stamina will be needed before sales figures return to pre-crisis levels. One exception is Mexico, where the economy is moving into high growth and is expected to outpace global growth during the latter 2010s.

During the crisis, many individual truck operators in the NAFTA countries were forced to fold, and only fleet owners had the financial muscle to survive. Today, growth in all of the Triad countries is largely driven by fleet businesses. For fleet operators, new trucks are attractive primarily if they can be connected to data networks and support the optimization of fleet use. Triad sales are also set to be boosted by the replacement of older trucks that no longer satisfy the current emissions regulations.

In other industrialized countries, such as the Asian tigers (Hong Kong, Singapore, South Korea, and Taiwan), growth potential is severely limited by their overstretched infrastructure. Meanwhile, some European countries are benefiting from the additional free trade opportunities arising from E.U. expansion, and Europe thereby may slowly regain attractiveness as a sales market.


**Exhibit 2**

**Truck sales by region**

- **2006 (pre-crisis)**
  - NAFTA: 27%
  - Western and Central Europe: 17%
  - IEA: 6%
  - BRIC: 38%
  - Other: 12%
- **2013 (latest actual)**
  - NAFTA: 15%
  - Western and Central Europe: 11%
  - IEA: 4%
  - BRIC: 55%
  - Other: 15%
- **2020 (forecast)**
  - NAFTA: 15%
  - Western and Central Europe: 3%
  - IEA: 3%
  - BRIC: 53%
  - Other: 18%

**Notes:**

- Includes trucks of permissible gross laden weight (more than six tons).
- IEA = Industrialized East Asia, namely Hong Kong, Japan, Singapore, South Korea, and Taiwan.
- Numbers may be rounded.
- Source: IHS Global Insight 2014; Strategy& analysis
As for truck makers in the BRIC countries (Brazil, Russia, India, and China), they proved significantly more capable of weathering the storm. They increased volumes by substantial amounts, and the new levels have since been maintained. In China, buyers are granted a truck scrappage subsidy. This has significantly boosted demand, fulfilled almost exclusively by Chinese OEMs.

Within the various BRIC countries, the sales markets are developing very differently. Brazil’s economy is extremely volatile and is currently not living up to expectations. Technically, the country is in recession following a downturn in gross domestic product (GDP) in the first two quarters of 2014. Rising interest rates are increasing costs, thus representing a significant obstacle to growth. The government is pushing the modernization of truck fleets, but this campaign runs the risk of falling flat. Because of the uncertain economic situation, the market is not ready to invest in high-priced commercial vehicles. The consequence is a growing potential for low-budget products, inviting new players to enter this arena.

In Russia, the truck industry’s growth plans currently depend on, among other things, how the political situation develops. The Russian truck fleet needs modernization. About two-thirds of the trucks on the road are more than 15 years old, and it is very likely that Russia will adopt E.U. emissions standards. In addition, the desire for greater vehicle safety argues in favor of modernization. However, current economic sanctions are dampening expectations for business investment.

China will continue to be the most important sales market among the BRIC states — but it is an increasingly challenging market. With its extensive scrappage subsidy, China has pushed the renewal of its older truck fleet. The Chinese truck market is not yet completely saturated, and the renewal of its truck fleet will continue. Certainly, demand has leveled off, but will remain on a high level. Meanwhile, urbanization and industrialization are continuing unabated in China. The western regions of China are now increasingly being developed, thus raising the demand for goods to be transported long distances within the country. However, there is as yet no evidence of a shift in sales from low-budget trucks to mid-range trucks, and in any case this is only likely to occur in small volumes. Chinese OEMs are faced with the challenge of complying with a new regulatory requirement, and foreign manufacturers continue to have little to show for their efforts to penetrate the Chinese truck market.

Among the BRIC states, India’s importance to the truck market is approaching that of China, since the demand for transport of goods is expected to grow markedly. The nation’s GDP growth is already significantly above the global average, and it is set to rise further. Moreover, India’s voters have elected a new government on promises
to boost the economy. It is also looking to win back the confidence of investors, particularly those from overseas, leading to new infrastructure projects, which will therefore also increase demand for trucks. That said, the low-budget market is and will stay dominant; the opportunity for premium trucks in the Indian market remains modest.

The most significant transportation growth in the near future will come from newly developing and high-potential sales markets in the threshold countries: the next wave of emerging economies after the BRIC nations. Most of these countries are in Asia and Africa. They include Algeria, Angola, Bangladesh, Egypt, Indonesia, Iran, Nigeria, Pakistan, the Philippines, Turkey, and Vietnam. They account for less than a sixth of the global truck sales market in 2014, but by 2020 their share will have grown to nearly a fifth. Like India, they will favor low-budget vehicles. So will Latin America, at least so long as the economic downturn there continues. The trucks that sell best in all these countries will be relatively modest in terms of features and will be largely consistent across the southern hemisphere. This factor favors Chinese and Indian OEMs.

The key sales growth markets for trucks in this group will be Turkey, Indonesia, and Vietnam — showing much faster volume growth than the global average between now and 2020. The Turkish economy is boosted by closer relations with E.U. member states and by Turkey’s strategic position as the gateway to the Middle East. Indonesia and Vietnam, like Mexico, benefit from growing domestic and export demand for their goods. Already, Indonesia is the biggest truck market outside the Triad and BRIC nations, and it is continuing to grow. In Vietnam, truck sales are expected to double by 2020, since many companies have already identified the country as a production location and are outsourcing some activities there. Several other Asian economies similarly combine relatively high GDP and relatively high domestic growth.

Africa’s growth is starting from a much lower point, but it is being driven by a variety of factors, ranging from more effective exploitation of natural resources to expanding free trade agreements within the continent. For instance, oil-rich Nigeria is currently developing into a major producer, accompanied by strong population growth. About 10 African countries — with Algeria and South Africa toward the top — are strong on both current GDP levels and domestic growth.
Customers and products

The global truck market is anything but homogeneous. There are considerable differences between the Triad and the BRIC countries in customer priorities (see Exhibit 3, next page). The technical demands for reliability and general ease of operation are universal, but there is also highly differentiated price sensitivity, along with a high tolerance outside the Triad for “good enough” trucks with a minimum number of features. New mid-market producers are filling that demand, and incumbent truck manufacturers from the West are scrambling to catch up by slimming down.

In the mature economies of the Triad, customers have high expectations. They are looking for technologies that help satisfy environmental and safety considerations and meet requirements for driver comfort and fleet management capability. These advanced features also make it possible to set higher prices in the Triad. In China and India, the increasing legal requirements are making vehicles more expensive in markets where there is little scope for price increases. Consequently, demand for vehicles with more advanced equipment is lower.

The Russian market probably offers the greatest untapped potential for mid-market value trucks. Currently, political instability and the associated reciprocal trade restrictions with many Western countries have cut back opportunity for truck manufacturers from Europe and the United States. For their rivals from China and India, this generates an opportunity to claim market share. There is a similar opportunity in Brazil, where economic volatility has caused truck buyers to reevaluate their expectations frequently, making them more cautious with investment decisions. In this environment, budget and value trucks will become more important, opening up market entry to new players.

In the threshold markets and other emerging nations, price sensitivity is even higher. This allows relatively little opportunity for premium vehicles. A key criterion for buyers will be low prices, but their expectations for safety features will also be modest. Chinese and Indian truck manufacturers will probably thrive in these markets,
Exhibit 3
Criteria affecting demand in three types of countries

<table>
<thead>
<tr>
<th>Criteria relevant to customers</th>
<th>Triad countries</th>
<th>BRIC countries</th>
<th>Threshold countries*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhaust/emissions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel consumption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design/exterior</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comfort/interior</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payload/gross laden weight</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sturdiness/overloading capability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Connectivity</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Algeria, Angola, Bangladesh, Egypt, Indonesia, Iran, Nigeria, Pakistan, Philippines, Turkey, and Vietnam.

Source: Strategy& analysis
since their vehicles are very well positioned to meet a “good enough” threshold while offering clear price advantages over models from Triad OEMs. Established Chinese and Indian truck models are also well suited to local infrastructure conditions in developing countries. This makes them reliable trucks for building up bigger fleets in the new markets.

This presents truck manufacturers in the Triad with a host of challenges. Previous attempts to position older models or reduced-specification versions in markets with a low price point have largely failed. Partnerships with local OEMs from emerging markets do not always go smoothly and are only rarely successful, especially in terms of market share. Triad OEMs are still a long way from offering the low-cost trucks the new markets demand. To make enough “good enough” trucks to compete, they will need to develop a major shift in product concept.

Chinese and Indian vehicles are very well positioned to meet a “good enough” threshold while offering clear price advantages over models from Triad OEMs.
Production and manufacturing

Truck production will also develop very differently in different regions, as truck manufacturers’ production networks are reshaped to take into account the increasing share of global truck sales going to new markets.

Between now and 2020, production in NAFTA and in Western and Central Europe will increase on average by 4.8 percent annually. In the industrialized countries of East Asia, including Japan, South Korea, and Taiwan, the rate of increase will be just 0.6 percent. The production volume in Japan will actually fall, despite domestic market growth, because of the new competition exporters face elsewhere.

The main beneficiary of the changing global production structure, in addition to India and Russia, is Mexico. North American manufacturers increasingly view Mexico as an excellent production location with a competitive cost structure. They have relocated significant production capacity there. By 2020, the volume of trucks produced in Mexico is set to increase by more than 50 percent.

Together, the BRIC states will grow production by 3.6 percent annually on average between now and 2020, in line with the overall market globally. The future for Brazil’s truck makers depends on how quickly the country can recover, but they are oriented to a domestic market. The same is true for Russia, whose truck makers meet the majority of its domestic demand — and where truck production could double by 2020.

Among the BRIC nations, India will have a special role. Its truck production, influenced primarily by rising domestic demand but also by growing exports, will more than double. So far, Indian OEMs’ international activities have been very limited. However, the demand in the new emerging markets for budget trucks will give Indian manufacturers confidence and support their export efforts. Their first production sites abroad will also help them capture emerging markets for their “good enough” trucks. In Africa, the first operations for this are already under way. The potential for the Indian truck industry is for 10 percent of its production to be exported by 2020.

By 2020, the volume of trucks produced in Mexico is set to increase by more than 50 percent.
By contrast, following the big boost between 2006 and 2013, production in China is expected to stagnate, because of slowing demand and — most important — the aftereffects of the surge in production in recent years. The already high sales expectations of 2009 and 2010 were extrapolated into the future, and the government continued its investment program in 2011 and 2012, leaving China with considerable overcapacity in truck production. More than 90 percent of this overcapacity is shared among the five biggest Chinese truck manufacturers. If this were a more mature economy, we would see consolidation, but in China there is minimal financial pressure to trigger a wave of mergers and acquisitions among manufacturers.

This situation — low expectations of growth with substantial overcapacity — will drive Chinese OEMs to expand globally. For the Triad OEMs, this creates a major challenge, since they are unable to compete on price with their Chinese counterparts. Chinese trucks already sell in significant volumes in some markets — in Russia, for example, every 11th truck comes from China today, and in Vietnam the figure is two out of every three trucks sold. Measured against total volumes, these export sales remain modest; however, with increasing success Chinese products will significantly energize the country’s export business in other emerging markets. China could export as much as 13 percent of its production by 2020, which would make it a leading player in this industry.

Chinese manufacturers are also looking to build production sites outside China, in places such as Brazil, Mexico, Russia, Slovakia, and a number of African countries. Their approach ranges from cooperation with local partners on the ground, to part ownership of production sites, to developing factories that they alone plan, finance, and run. All these activities are paying off over the long term. They are helping Chinese OEMs learn to develop global structures, to recognize local market mechanisms, and to acquire technological know-how via the global companies in their local supply chains. This experience is particularly relevant for the long run. Sooner or later, Chinese manufacturers will migrate from a “good enough” truck to a value model, and then they will compete on features other than price.
The list of innovation trends is a long one, but three repeatedly come up as priorities for truck manufacturers today. These are the customer preferences for greater emissions transparency, better safety features, and connected trucks — trucks with links to the Internet. These innovations do not have the same relevance for all regions. In the Triad countries, in particular, premium features such as connectivity will be the key to successful sales. Demand will drive new services and safety features. Although the Triad markets have buyers willing to pay for new technologies as soon as they go into production, in other regions the market will wait for the financial return to be proven.

**Environment:** Around the world during the next few years, legal requirements on pollutant emissions will increasingly converge. Since the early 2000s, the Triad countries have tightened their limits on pollutants. In the United States, for instance, nitrogen oxide (NOx) limits are set by the EPA at 0.27 grams per kilowatt/hour (g/kWh), which is half the European (Euro V) limit. The trailblazer when it comes to limits on particulates is currently Japan, which has set a level of 0.01 g/kWh — half that currently permitted under Euro V. The BRIC markets are catching up, with a degree of delay, and are gradually adopting restrictions similar to the E.U. standards. The limits for carbon dioxide, diesel particulate matter, and carbons have also been driven down. These limits will continue to be more stringent, through successive stages of regulation.

This governmental pressure for emissions reduction is having an effect. It has led, for example, to higher emissions transparency, making the tracking of all emissions more feasible over the entire value chain. This is the best approach to minimizing emissions. When the production of emissions while driving is monitored more rigorously, it is easier to engineer solutions for controlling it.

With greenhouse gas emissions, reductions stem from both energy efficiency and alternative fuels: the use of lower-carbon fuels such as natural gas, or even carbon-neutral fuels that only release the amount of CO₂ that was created during their production. Other
technologies are becoming available to reduce pollutant emissions. For NOx, these include NOx absorbers, selective catalytic reduction, and exhaust gas recirculation. Diesel particulate filters have proven effective over many years in reducing fine dust emissions. Today, the Triad countries are still clearly out in front when it comes to these key technologies, but the BRIC manufacturers will gradually catch up, and the automotive supplier industry will help them get there.

**Safety:** The growing focus on safety can be largely attributed to increasing traffic density, particularly in the global metropolises, where the risk of accident has increased considerably. New sensors and displays are aimed at helping drivers anticipate hazards. There is great sales potential for safety technologies, particularly in the southern hemisphere where these features are not as yet widely found. In all these countries, as in Russia, the primary unmet need in the current fleet is for anti-lock braking systems (ABS) and stability control systems. In the future, the following factors are expected to drive the update of new safety features: ROI and initial cost of procurement, effectiveness of the technology, driver acceptance, interface integration, liability, and regulation.

**Internet:** Premium trucks will increasingly be connected — that is, linked to the Internet in hubs that aggregate details from on-truck monitors and allow more sophisticated forms of monitoring and control. The connected truck concept contains attractive features for fleet owners and for drivers, because it enables fleet management to be streamlined considerably, with truck data exchanged wirelessly on the move. This enables fleets to optimize logistics, availability, and costs. Through real-time traffic information, for example, mobility management can transport goods faster, more safely, and more cost-effectively. Vehicle management systems support drivers in minimizing vehicle operating costs and increasing driver comfort — for example, through a detailed vehicle status display or transmitting usage data. Entertainment is also a key capability of such connected trucks. The more time a driver spends in the truck, the more important things such as problem-free Internet access become. Safety-relevant functions such as driver fatigue detection round off the options for connected trucks.

The BRIC manufacturers will gradually catch up — and the automotive supplier industry will help them get there.
As we have shown, the coming changes in the global truck market will be driven in particular by a large number of emerging sales markets in the threshold countries and by the considerable overcapacity in Chinese truck production. Truck OEMs globally will need to critically reevaluate their strategies.

Four regions are important for future growth: the NAFTA countries, Europe, India, and Africa. Sales in China will be flat, but that country will continue to be the biggest market, dominated by local players. New markets, such as Africa or Southeast Asia, are currently small but will grow strongly in the future, assuming a stable political climate.

OEMs’ products will change in the future. In the new growth markets such as Africa, Southeast Asia, and Central America, low-budget trucks will become the preferred product. Value trucks will benefit from growth in India, increasing demand from fleet operators in China, and new customer requirements in Brazil. Tougher emissions regulations in Western countries and in the threshold countries will increase the demand for low-emission technologies. And to address the demands from major urban centers to reduce heavy truck movements, entirely new products and transport solutions will have to be developed.

Truck production capacity in Europe and the NAFTA region is in line with demand. In China, there is massive overcapacity in production, and consequently it makes little sense for Triad manufacturers to build up additional capacity there. If a Western manufacturer develops a vehicle concept that is suitable for China, then the better approach is to use the existing capacity of a joint-venture partner. Even with this option, serious questions still need to be asked about the advisability of further engagement in China for Triad manufacturers.

To open up the new markets in Africa, “completely knocked down” concepts are suitable initially, but investment in production, sales, and after-sales structures will be necessary to be successful over the long term.
By pushing strongly into the global market, particularly in the emerging nations, Chinese and Indian OEMs will be taking a major step toward becoming globalized manufacturers. OEMs from both countries have solid positions in their domestic markets and will be able to exploit market growth in the Middle East, Africa, selected Asian countries, and Latin America (see Exhibit 4, next page). The particular focus for this expansion is on budget and “good enough” trucks.

Becoming established in these markets, however, will not be easy. While seeking success in the new markets, Chinese and Indian OEMs will need to keep hold of their own domestic markets. Particularly in India, further investment in infrastructure will be needed. Meanwhile, global success can be achieved only if appropriate local models are in place and legally certified and sales/service/after-sales networks, vehicle financing, and a local supply chain have been established. This creates barriers to market entry for Chinese and Indian truck manufacturers, which do not yet have much experience outside their home countries. To be establish themselves as truck manufacturers on the global stage, they must first prove themselves in important country markets. That is why they are adapting their efficient domestic cost structures for low-budget trucks to local production abroad — to keep their cost advantage. But they also need to develop some entirely new skills of international management, including the ability to deal with other cultures and social structures.

For the Triad manufacturers, China is not the success story they once hoped it would be. Many Western manufacturers have entered into joint ventures with Chinese partners since 2000, but this has not given them a noteworthy role in the Chinese market. In addition, for the foreseeable future, no significant growth in sales is anticipated in the premium segment, which is the most attractive for Triad manufacturers.

The future of the Triad OEMs is limited in India and almost nonexistent in China. This is the time to recognize real opportunities and act decisively. Their opportunities lie in their strong domestic markets and their established export geographies — the countries where they already have powerful brands and a strong international presence. These strengths should be the foundation of successful entry to the next-generation growth markets. The Triad OEMs have the opportunity to exploit growth in a restabilized Brazil and to offer more attractive and price-competitive products to the markets they already know.

A key product for the Triad OEMs is the low-budget truck. They need to expand their core competence — the production of premium and mid-class trucks — to offer low-budget trucks as well. Market success in the emerging threshold countries rises or falls with the availability of such trucks. The demand for low-budget trucks will increase, and
Exhibit 4
Likely markets for Chinese and Indian truck OEMs

Source: Strategy& analysis
it will be vital to fulfill the demand for more price-competitive and robust trucks while keeping production costs in line. There have already been numerous attempts by Triad OEMs to develop low-budget trucks, but to date no truly successful concept has emerged. Meanwhile, Indian and Chinese OEMs will make a big impact on the distribution of market share only if they succeed in developing the right international business structures.

In short, global truck makers have a few imperatives to keep in mind. Avoid India and China as markets. Innovate and revamp production. Expand your presence in countries you already know, and find better ways to compete there. Develop low-budget trucks, which will require a shift in operating models and other parameters; no incumbent company from an industrialized nation has yet done this successfully. But for those who can make the transition, an enormous global opportunity is available.
Strategy& is a global team of practical strategists committed to helping you seize essential advantage.

We do that by working alongside you to solve your toughest problems and helping you capture your greatest opportunities.

These are complex and high-stakes undertakings — often game-changing transformations. We bring 100 years of strategy consulting experience and the unrivaled industry and functional capabilities of the PwC network to the task. Whether you’re charting your corporate strategy, transforming a function or business unit, or building critical capabilities, we’ll help you create the value you’re looking for with speed, confidence, and impact.

We are a member of the PwC network of firms in 157 countries with more than 195,000 people committed to delivering quality in assurance, tax, and advisory services. Tell us what matters to you and find out more by visiting us at strategyand.pwc.com.