The Conundrum Of Japanese Carmakers In West Europe

Contributed by Euromonitor International
Monday, 16 July 2012

Japanese carmakers have suffered a further 11% decline in sales in West Europe over the first five months of 2012.

Coincidentally, this follows an 11% decline in full-year passenger car sales for Japanese OEMs in the region in 2011, largely because of supply constraints as a result of the devastating earthquake in March 2011.

This is particularly disconcerting as Japanese brands should now be in recovery mode with the return of vehicle output and, in turn, improved inventory levels.

The unrelenting EuroZone crisis is of course largely responsible as passenger car sales were down 8% overall year-on-year through to May 2012. However, Japanese (and mainstream European brands) continue to be squeezed by premium brands, whose combined sales may have only been flat in the first five months of 2012 but still performed significantly better than the total West European market.

Moreover, Japanese brands in particular face stiff competition from Hyundai-Kia, which sold 16% more cars in the region from January to May compared with the same period in 2011. The market share of Japanese brands is therefore falling further in 2012.

Falling car sales are naturally adding to the overcapacity problems that are plaguing the Japanese and mainstream European players in Western Europe, which culminated in GM's announcement of the planned closure of the Bochum plant in Germany. However, Japanese players are unlikely to take such dramatic measures in Europe as the strength of the yen means exporting from Japan is less profitable than utilising European facilities.

In fact, Nissan has just announced that it will cut production capacity in Japan by 15% from July 2012. Similarly, Toyota has announced that production of the Yaris small car for the North American market will be transferred from Japan to Toyota's plant at Valenciennes in France from May 2013.

According to an article on just-auto.com, â€œSales of the Yaris in Europe between January and May this year saw a year-on-year increase of 22%â€•. This is especially interesting as the Yaris may even hold a clue to solving Japanese OEMs' falling car sales and, in turn, their overcapacity issues.

Essentially, at least in the UK, the Yaris is marketed with strong connectivity credentials and this is becoming an increasingly important factor in the car purchasing decision, especially for young consumers. One strategy for Japanese OEMs, therefore, may be to differentiate themselves from their competitors by offering - and trading on - advanced technology not just under the bonnet but also inside the car.

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