

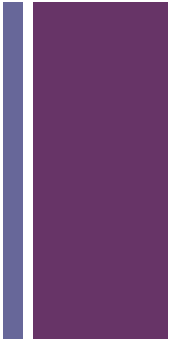


Automobile Industry

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+ What do they do?

- **The automotive industry is the industry involved in the design, development, manufacture, marketing, and sale of motor vehicles.**



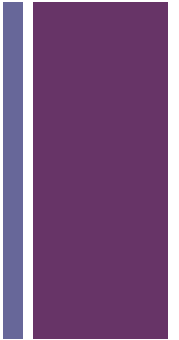
+ SO?



- In 2007, more than 72 million motor vehicles, including cars and commercial vehicles were produced worldwide. In this same year, 17 million new automobiles were sold in the US, 16 million in Western Europe, 8 million in China, and 2 million in India.



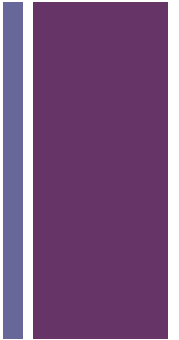
+ And?



- There are approximately 244 million vehicles in operation in the United States. Around the world, there were about 806 million cars and light trucks on the road in 2007. By 2020, the predicted number of cars worldwide will reach 1 billion. Currently, these vehicles burn nearly 260 billion gallons of fuel yearly.

+ Finally.

- According to N.A.D.A (National Automobile Dealers Association), in the US, as of 2006, the industry included about 21,200 new-car dealerships, 1.07 million manufacturing employees and 1.12 million retail new and used car dealership employees. Total revenues at new-car and light truck dealers exceed \$675 billion this year.



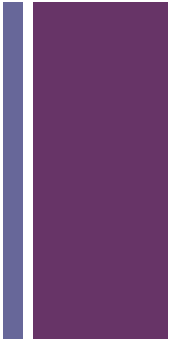
+ Implication and a simple question.

- All of the information above gives us an idea on how large the automobile industry is. But, it is not large enough. It is still growing at a very fast rate.
- However, is something else growing as well?

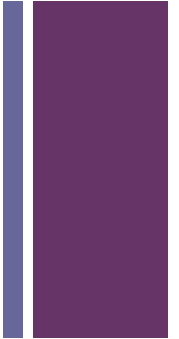


+ What else is growing?

- The years of 2004 through 2006 were a turning point for the automobile industry. It was a time period where the idea of cheap gas was shattered and the demand for more gas efficient cars increased. Gasoline prices of approximately \$2.00 per gallon started taking a huge portion out of an average family income in 2004, many owners SUVs and pickup trucks became very sad. By 2005-2006, with gasoline prices in the \$3.00 range, the market for large SUVs decreased. While gasoline prices moderated during much of 2007, they were still in the \$2.70 range in most markets. Recently, in 2008, gas price is just crazy
- Source: fueleconomy.gov



+ Now what?



- Since gas price is increasing fast, automobile companies simply responded by making smaller and more gas efficient cars or bringing in smaller cars which they didn't sell in the US before. ;)
- For example, Toyota has small 1.8liter engines in Corolla, Yaris, Honda has the 1.5liter engine Fit, and BMW has the Mini Cooper.

+ Supply and Demand



The demand for Toyota's Prius hybrid car increased dramatically over these years and by supply and demand, Toyota responded by raising the price and increase production. In 2004 and 2005, they were able to make 100,000 Prius and in 2007, the number had increased to 200,000. Since Toyota is good at making hybrid cars, there has been good demand for Toyota's Lexus RX400h hybrid crossover (a hybrid SUV with an interesting story-at first, the first generation RX400's electrical power units would only last for 20minutes then the car would have to run on only the gas engine and recharge it, the the cycle repeats. Now, they have solved the problem).

Source: toyota.com

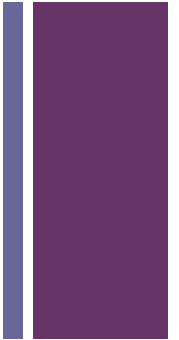
+ How much?

- \$22475. That's how much that hybrid cost.
- Because the technology is still relatively new, and there is a learning curve to it, the price of hybrid cars can still be high.



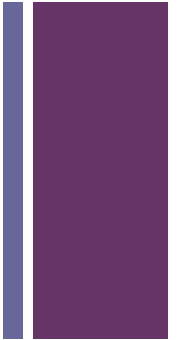
+ What if you can't afford it?

- To a lot of people, buying a hybrid car can still be too much.
- The cheapest hybrid car is still over \$20000.
- Other lineups: corolla(27MPG city, 35MPG freeway), fit(28,34), yaris(29,36), Mini Cooper(28, 37)



+ Mutation.



- There is one company however, that does not obey the rule of supply and demand (they have VERY high customer demand but they do not increase supply by much). And also the people who buys from this company does not seem to care about MPG rating for their cars.
- This company is the famous....



Ferrari

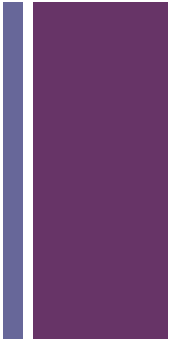


+ Let's look at their MPG ratings and price.

	2007 Ferrari F430 Coupe Coupe	2007 Ferrari 612 Scaglietti F1 Coupe	2007 Ferrari 599 GTB Fiorano Coupe F1 Coupe
Add another vehicle to comparison			
	Buy New	Buy New	Buy New
	Buy Used	Buy Used	Buy Used
	More Info	More Info	More Info
	Remove	Remove	Remove
General Information			
Estimated Market Price	N/A	N/A	N/A
Invoice	TBA	TBA	TBA
List Price	\$173,079.00	\$267,887.00	\$273,845.00
Vehicle Class	Luxury	Luxury	Luxury
Overall Satisfaction Rating	N/A	100 out of 100	N/A
Free Personal Vehicle Report	2007 Ferrari F430	2007 Ferrari 612	
Performance			
Engine	4.3L 8 Cylinder	6.0L 12 Cylinder	6.0L 12 Cylinder
Drive	RWD	RWD	RWD
Transmission	6 speed Manual OD	6 speed Automatic OD	6 speed Automatic OD
Compression Ratio	11.30:1	11.20:1	11.20:1
Horsepower	490 hp @8500rpm	540 hp @7250rpm	620 hp @7600rpm
Torque	343@ 5250	434@ 5250	448@ 5600
Bore	3.62	3.50	3.62
Stroke	3.19	3.00	2.96
Fuel Capacity	25.10 gallons	28.50 gallons	27.70 gallons
Fuel Type	Unleaded	Unleaded	Unleaded
Fuel Delivery	SEFI	SEFI	SEFI
MPG City	13	10	11
MPG Highway	17	17	15

+ Sales record.

- Ferrari reported its 2007 sales worldwide grew 14 percent in 2007 compared with 2006, to about 6,400 cars. It was a record result for Ferrari (gas prices are going up, and so are their sales).
- Company executives said sales were especially robust in emerging markets. In the Asia-Pacific region sales grew by 50 percent, in the Middle East by 32 percent.

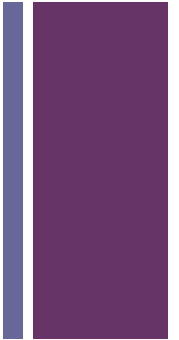


+ What and why.

- So even when gas prices are increasing, why would cars that gets to almost 10MPG and cost \$250000 have increase sales?



+ Reason



- Ferrari is known for using their “racing technologies” into their road going cars. For example, the famous “F1 gearbox” and the “F1 steering wheel”.
- The company wins many “important” races each year. (for example F1 which is an amazing competition that holds once a year. And to almost all, it is the HIGHEST form of automobile racing sport.) (I don’t know if this is interesting but the drivers of F1 cars loses on average 8lbs after each race because of water lost. And on average, every time they take a corner, the G-force is equal to putting 30-50lbs on their neck sideways.)
- Their designs are beautiful.
- Makes to believe that “When you buy a Ferrari, you don’t just buy a car. You are buying a piece of automobile racing history.”
- Who can put a price on a piece of history?? \$250000 is cheap for a piece of history!

F1
GULF AIR
BAHRAIN
GRAND PRIX
BAHRAIN 2004



FORWARD BY LUCA BARDOTTI
ILLUSTRATIONS BY TONY MATTHEWS

Ferrari Formula 1

UNDER THE SKIN OF THE CHAMPIONSHIP-WINNING F1-2006 BY PETER WRIGHT



VIEWIMAGES™

+ The problems. Interview with a Ferrari dealership located in Southern California

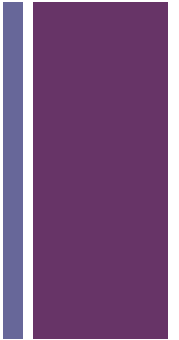
■ Q: Why is there such a long wait list(1.5-3years)?

A: because most of the parts are hand assembled. And Ferrari likes to keep the production low. I mean after all, if you see as many Ferrari on the road as Hondas, it wouldn't be Ferrari then would it?

■ Q: If the supply is so limited, who gets the car? (Warning for a middle man)

A: Let's just put it this way, you will always have a ratio of 1 car to let's say three customers. No matter what you do, you're going to end up with two angry ones.





- Q: I understand that some dealerships sells a car to the person willing to pay \$120000 more. So if you guys sell it for \$120000 over the sticker price, who gets the money? A: We don't do it! (I personally don't believe them. Oh this is my voice inside of my head.) Besides Ferrari has policies on these things.
- Q: Don't you guys care if you will lose customers because of the price and wait list? A: Sure we do. But there are always rich people who can afford one of these things. And people are just crazy about these cars. Even if we lose a few, many more will just come to us.