



Development Strategy of a Car Manufacturing Company in the Russian Car Market at the example of Sollers PJSC



Butov, Alexander V., Plekhanov Russian University of Economics, Moscow, Russia.*

Alexander I. BUTOV

ABSTRACT

The article analyses the dynamics of development of the Russian market of passenger cars and light commercial vehicles, investigates the strategy and competitive advantages of Sollers group of companies, which is successfully operating despite volatility of development of the Russian car market, as well as the need for a radical renewal of the model range of the company's cars, the presence of excess production capacity and the departure from Russia of three foreign partners of Sollers group of companies in joint ventures: Fiat, SsangYong and Ford. Particular attention in the article is paid to Ford, a joint venture partner with Sollers PJSC, which left the Russian domestic market in 2019. This event, which had a negative impact on partners and clients of the company, was caused by several circumstances. Besides, the article identifies the main directions of development of joint ventures Mazda Sollers and Ford Sollers (in terms of Ford Transit minibus, the only locally manufactured Ford model) and the possibility of expanding their export

potential, including due to export of engines, spare parts and components.

The article pays close attention to introduction of new technologies in Sollers PJSC and other companies, development of digitalisation in development and production of new models, creation of its own telematics platform that allows to connect a car to the Internet and control it remotely, including starting the engine.

The author examines in detail a new consumption model in the car market associated with refusal of buyers to own a car and with emerging choice of new services regarding subscription and exchange of cars, their development in foreign and domestic markets, as well as offers the analysis of successes and failures of foreign automakers in providing subscription services.

The main purpose of the article is to study the strategy of Sollers PJSC in the domestic and foreign markets, auxiliary purposes refer to the analysis of the domestic market, change in the consumption model and provision of new services, study of reasons for departure of foreign partners of the company.

Keywords: car manufacturing, transport, competitiveness, pricing policy, leadership, localization of production, state support, industrial assembly, devaluation, controlling shareholder, auto components, leasing, digitalization, Internet of things, car subscription.

*Information about the author:

Butov, Alexander V. – Ph.D. (Economics), Associate Professor at the Department of Organisation and Administrative Innovations of Plekhanov Russian University of Economics (REU), Moscow, Russia, a.v.butov@yandex.ru.

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The objective of the article is to study the strategy of Sollers PJSC, its validity, efficiency, ability to solve corporate problems of the company, as well as to study the dynamics of the domestic car market, problems hindering its development, to study the reasons for departure from the Russian market of Ford corporation, Sollers partner in a joint venture company. The research has covered the period until 2020 since further developments were highly influenced by pandemic situation. Research methods include methods of observation, analysis and synthesis, groupings, induction and deduction, analogy, and interpretation.

Sollers group of companies, which is engaged in production and sale of cars, engines, spare parts and components, was founded in 2002 and currently includes LLC Ulyanovsk Automobile Plant (UAZ), OJSC Zavolzhsy Motor Plant, LLC Sollers – Far East, as well as joint ventures: Ford Sollers and Mazda Sollers.

In 2019, the largest Russian car manufacturers and the Russian Automobile Dealers Association (ROAD) revised their sales forecasts towards a significant reduction. They asked the government to resume demand support programs, as well as to tune them, because the existing programs were significantly reduced in terms of the amount of allocated funds and the cost of cars (less than 1 million roubles), thus stimulating sales of mainly AvtoVAZ cars, which is already the leader in sales in Russia [1, p. 9].

The domestic car market has a fundamental problem that slows down its growth rates, and

that is the level of household income. «Until something happens here, the market will remain volatile, and the role of the regulator will be very important. It is obvious that the entire industry will seek help in the form of measures to support demand from the state», said Vadim Shvetsov, the controlling shareholder and chairman of the board of directors of Sollers PJSC [2, p. 10]. The volatility of the Russian car market is characterized by the data given in Table 1.

In 2019, the situation in the car market worsened: there was a drop in new car sales in Russia. According to Pic. 1 for five months of 2019, 678 thousand cars were sold on the domestic market instead of 693 thousand during the same period of 2018 (a decline by 2,2 %) [4].

Car prices in Russia rose in 2019 due to higher VAT and inflation. The entire domestic car manufacturing industry is highly dependent on exchange rates and weakening of rouble in August 2016 coincided with another increase in prices in car dealerships. Localisation of production of domestic cars does not fully solve this problem, since both domestic and foreign automakers are still forced to import a lot of technologies, licenses, and auto components. The rise in prices in the context of a decrease in real incomes of the population inevitably causes an even greater drop in demand [5, p. 9].

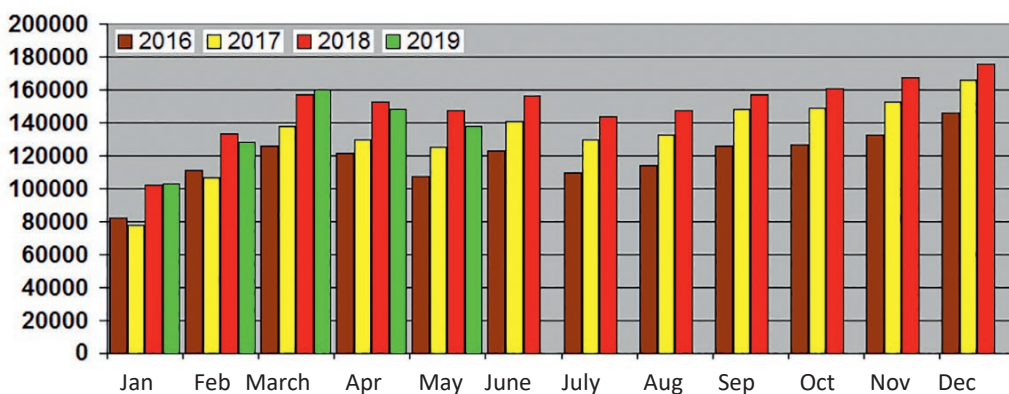
Another problem in production and sale of cars in the domestic market is the high cost of borrowed funds: the minimum rate for leasing or car loans is 15 % [2, p. 10]. In Russia, compared to other markets, there is a low rate of vehicle fleet renewal, there are no incentives that force owners to change cars more often. Even considering the trade-in, the cost of a new car is high, and many people refuse this purchase. Therefore, to increase sales, it is necessary to resume in the next years the state programs of concessional car loans and concessional leasing.

Due to a significant reduction in state support and demand from small and medium-sized businesses in January–May 2019, there was a drop in sales in the segment of light commercial vehicles by 8 % (Pic. 2).

Another problem of most car manufacturers in the Russian Federation is *presence of excess production capacity* created during the period of market growth, which determines low profitability in the industry.

Table 1
Dynamics of sales of new cars in the Russian Federation [3]

Years	Sales volume (thousand units)
2007	2583
2008	2918
2009	1466
2010	1915
2011	2653
2012	2939
2013	2777
2014	2491
2015	1601
2016	1425
2017	1600
2018	1800



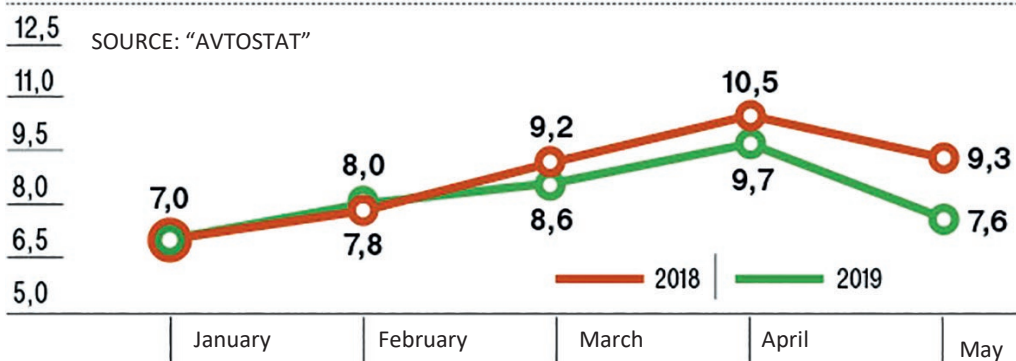
Pic. 1. Sales of new cars in Russia in 2016–2019 [4].

Export is an important means of loading free production capacities in a stagnating market, but its opportunities for the Russian car industry are significantly limited. Although UAZ is actively developing exports to non-CIS countries, and primarily to South America, the volume of supplies to this market is rather modest. «We are left with only open markets, from the point of view of tariff protection, where consumption is generally not extremely high», stated V. Shvetsov. — It is hard for us to reach large volumes as a niche player. Here, a much more interesting and promising development path is export of components. For the finished product, there are many protective measures, for components there are fewer or none. Therefore, entry into export operations with components or with car kits for assembly is a simpler, in our opinion, approach. We started a profoundly serious project with Mazda: we produce engines in the Far East and have integrated into the global supply chains of the group» [2, p. 10].

Another problem of UAZ today is that its products do not meet modern market requirements and require a radical update of the model range. To increase sales in both domestic and foreign markets, UAZ planned to produce an SUV on the Toyota Land Cruiser Prado class platform worth 1,5 million roubles. «We are confident that many consumers of foreign cars will consider Russian cars that also meet the current situation in terms of quality, properties, price», V. Shvetsov predicted [2, p. 10].

Another important area of the modern strategy of Sollers PJSC is creation of joint ventures with foreign car manufacturers, in which the company promotes the most popular models on the market (for example, Ford Transit), uses common components and platforms for production of its own cars, and increases the load of available production capacities. In 2011, Sollers PJSC set up a joint venture with Ford, although these companies

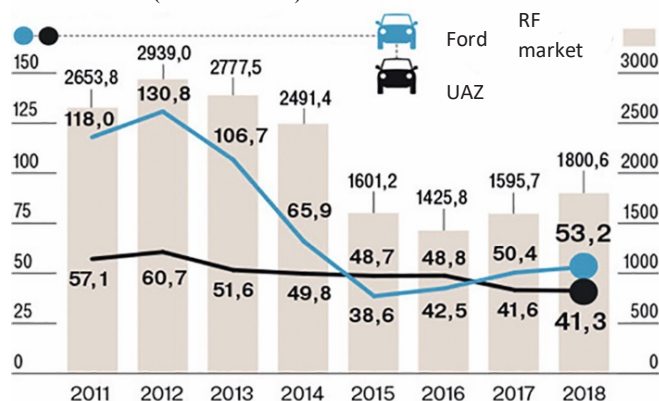
SALES OF LIGHT COMMERCIAL CARS IN THE RUSSIAN FEDERATION (THOUSAND UNITS)



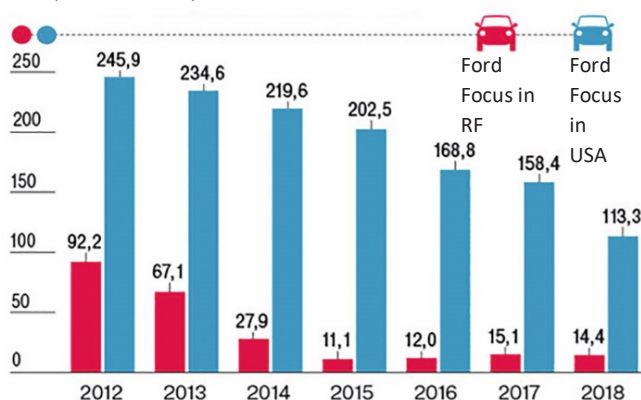
Pic. 2. Sales of LCV in Russia in January-May 2017–2018 [7].



DYNAMICS OF SALES OF PARTNERS IN JV FORD SOLLERS (THOUS. UNITS) SOURCE: AEB



SALES OF MODEL FORD FOCUS IN RUSSIA AND USA (THOUS. UNITS) SOURCE: FORD, FORD SOLLERS



Pic. 3. Dynamics of sales of cars Ford and UAZ in the Russian Federation [8, p. 10].

differed significantly in terms of scale of their activities (Pic. 3). Ford was forced to take this step because the Russian government changed the conditions for granting benefits to automakers, which were to sign new agreements on industrial assembly. This agreement provided for creation of production capacity for 350 thousand cars per year and a significant increase in localisation of production of components. By time the industrial assembly agreement was signed, Ford had nowhere to expand at its plant in Vsevolzhsk, and Sollers PJSC had two vacant production sites in Yelabuga and Naberezhnye Chelny, which it contributed to the joint venture.

The plans presented by the partners in the joint venture during signing of the industrial assembly agreement with the Ministry of

Industry and Trade of the Russian Federation included an optimistic forecast for the growth of the Russian market of passenger cars and light commercial vehicles. It was expected to double by 2016 producing up to 3,7 million vehicles, and within the products of the joint venture it was planned for this period to increase the share of Ford in Russia to 9 % [1, p. 10]. However, the presented forecast turned out to be unrealistic, since the market in these years showed exactly the opposite dynamics, and already in 2014, JV Ford Sollers announced the transfer of enterprises to a single-shift mode of operation, sharply reducing staff (Pic. 3).

Participation in this joint venture did not bring the expected results to Ford: in March 2015, it announced 7 billion losses and

depreciation of investments in the joint venture [8, p. 10]. Ford's losses were caused not only by the worsening economic situation and devaluation of rouble in the country, but also by miscalculations in pricing and marketing policies (price increases and delays in updating the model range), as well as errors in working with dealers, including a sharp reduction in mono-brand showrooms and a significant expansion of dealer network with a drop in total sales, as well as a decrease in dealer income.

In 2016, the sales volume of JV Ford Sollers began to grow, but Ford's market share did not exceed 3 % until the end of 2018: Ford could not rise from the tenth place in the ranking of domestic car manufacturers [3, p. 15]. At the same time, the company incurred losses, since its production capacity was clearly redundant: Focus and Mondeo were produced in Vsevolozhsk; Explorer, Kuga and Ford Transit were produced in Yelabuga; Ecosport and Fiesta were produced in Naberezhnye Chelny. Three separate factories produced two models each in exceedingly small quantities. Therefore, Ford's decision in 2019 to discontinue production and sales of passenger cars in Russia was a completely predictable event. Although Ford, as a non-controlling shareholder, still remained on the domestic market in the form of new JV Ford Sollers Netherlands B. V., which will produce only Ford Transit light commercial vehicles, this will in no way cover the losses incurred by Ford from leaving the Russian market at the amount of 500 million dollars, including 200 million dollars of direct monetary losses in payments to workers and suppliers [9, p. 7].

It should be noted that Sollers company in the JV paid special attention to promotion of a light commercial model Ford Transit, sales of which were growing against the background of falling sales of the rest of the JV Ford Sollers vehicle line. Ford Transit is ideally combined with UAZ models within the framework of localisation of production of the main components: motors, transmissions, etc. «From the point of view of product properties, they were the same, and the solutions that were used at Ford Transit are very much needed for the new UAZ» – said Vadim Shvetsov, Chairman of the Board of Directors of Sollers PJSC [3, p. 10]. Therefore, Sollers PJSC is currently developing quite successfully, being the controlling shareholder in the JV Ford Sollers

Netherlands B. V., which, according to the American website Carscoops, owns 51 % of the company's shares [10].

In 2012, another joint venture Mazda Sollers was created, which started assembling Mazda cars at the Far East car plant. In 2016, JV Mazda Sollers signed SPIC [special investment contract] on industrial assembly, according to which production of three models (Mazda 6, Mazda CX-5 and Mazda CX-9) was launched, along with production of engines intended for export with a capacity of 50 thousand units per year. In 2018, sales of Mazda cars in the Russian Federation increased by 22 % to 31,7 thousand units, and in the first quarter of 2019 by 10 % to 6,6 thousand units [11, p. 7]. The dynamics of JV Mazda Sollers development, even in the conditions of volatility and recession in the Russian market, gives hope for success of its further development, in contrast to the previous joint ventures of Sollers PJSC with Fiat, SsangYong and Ford, which left Russia.

Another fundamental problem of the global and domestic car market is *the transformation of the consumption model into a new user model*, in which the car turns exclusively into a means of transportation, losing a significant part of its emotional properties, and the decision to choose it becomes rational and pragmatic. This trend is also noted by Svetlana Maksina, who writes that «*in the future, when autonomous cars arrive on demand to take you where you need to go, there seems to be no point in owning them. The average car spends about 90 % of its life in the parking lot. The transition from private vehicles to a service that is owned and operated by public or private enterprises is a smart and effective solution that will revolutionise traffic flows in cities*» [12, p. 7].

The transformation of the consumption model means that current customers are ready to completely abandon car ownership: they will buy a car only in those rare moments when their feelings can subdue their minds, and in most cases, buyers will begin to make rational decisions, choosing the best option for specific trips: taxi, car sharing or car subscription. Therefore, automakers need to change their business model, and it should be based not on traditional car sales, but on the sale of service. Today it is no longer enough to offer customers a service in the form of a standard life cycle



contract, according to which a car is sold with spare parts, repairs, and the ability to exchange it through trade-in. It is also necessary to make the car an element of the ecosystem: it must learn to generate, receive, and transmit information. This requires a telematics platform that allows the car to be connected to the Internet and receive all the necessary data from the network. The Internet of Things (IoT) should change any automaker more than business process reengineering, Six Sigma or the concept of lean manufacturing [13, p. 257]. This is a critical area for controlling the car from the outside.

The results of *implementing IoT-based changes* at a single plant of Harley-Davidson resulted in:

- 80 % acceleration of the decision-making process;
- increase in profitability by 3–4 %;
- reducing duration of assembly of products by 10–25 times [14, pp. 21–22; 15, p. 175].

«A little less than a year ago, we began to create a team of specialists to develop our own telematics platform», noted V. Shvetsov. «It will allow the car to be connected, and the range of transmitted data and services based on them will vary depending on the client's requirements. For example, for private use according to the car-sharing model, these are some services, and for business there are the other ones. We are well aware that the main problem in the commercial transportation market is autonomy of each link in the chain: there is a driver, there is a load, there is a vehicle. Modern telematics products make it possible to combine all these elements into a single, fully manageable process that will guarantee efficiency of transportation. For individuals, other interesting opportunities will be provided, for example, remote engine start or the ability to exchange cars» [2, p. 10].

It should be noted that Sollers PJSC, like other domestic car manufacturers, lag significantly behind in introduction of new services, which have long been widespread among their foreign competitors. Globally, subscription services (a service that combines features of car sharing, rental, and leasing) have been developing at an accelerated pace since 2016. Currently, the number of subscribers to this service is about 1 million people. It is provided by most car manufacturers, comprising Volvo, Mercedes-

Benz, BMW, Jaguar Land Rover, Porsche, Ford, Nissan, Toyota. This service is gaining more and more popularity, although the results obtained from its implementation vary from success to failure, depending on the strategy chosen by car manufacturers (the number of models for exchange, annual mileage limit, the cost of the service, etc.).

The widest selection was offered by General Motors, which began providing Cadillacs by subscription in the United States in 2017. For \$1,8 thousand a month, the client could choose and change 18 models within a year: from the roomy Cadillac XT5 crossover to the CTS-V sports sedan. Moreover, it was not necessary to go to the dealer to get the car, it was enough to call him, and the courier delivered the car directly to the house. The mileage limit was 38 thousand km per year. However, this service for General Motors turned out to be unprofitable and in 2019 the company stopped providing it [16, p. 19].

Other automakers have not abandoned this service and are still actively developing it. For example, Volvo says that by 2025 the company will sell 50 % of its cars through this service. It is to note that Volvo was the first company in the Russian car market to offer customers the use of a car by subscription. A service called Volvo Car Drive offers a new crossover Volvo XC60 TS, which can be used throughout the year for 59,5 thousand roubles per month. For the entire period of use, the car will be registered on the company's balance sheet. The monthly fee includes everything you need, except for washing and gasoline, including compulsory civil liability insurance and motor own damage insurance, maintenance and repair, seasonal replacement of tires and their storage, preparing of all documents and registration of the car. Of the restrictions for the user, one can note that the company prohibits the use of a car as a taxi, limits its mileage to 30 thousand km per year and the possibility of using it outside the Central and North-Western Federal Districts¹.

Hyundai became the second automaker to introduce subscriptions to the Russian domestic market from October 1, 2019. Having launched

¹ Volvo Car Drive: Russia's first car subscription service from a car manufacturer [Volvo Car Drive: *perviy v Rossii servis podpiski na avtomobil ot avtoproizvoditelya*]. June 3, 2019. [Electronic resource]: <https://www.volvocars.com/ru/about/our-stories/news/volvo-car-drive-russias-first>. Last accessed 11.12.2019.

the Hyundai Mobility application on a smartphone, the client can choose three subscription tariffs: firstly, the City tariff, according to which a car can be rented for a period of 1 to 24 hours (for 650–800 roubles per hour, depending on the chosen crossover: Creta, Tucson or Santa Fe); secondly, the Country tariff, which offers a car for a period from 1 day to a month (from 3,0 to 6,8 thousand roubles per day, depending on the period and brand of the car) and, thirdly, the Freedom tariff, designed for term from 1 month to a year (from 29,9 to 88,0 thousand roubles per month)².

Conclusion. Sollers PJSC is actively developing production at joint ventures, but lags behind in development of its own production of UAZ vehicles, updating the model range, introducing information technologies and providing subscription services, which are already actively offered by foreign competitors in the domestic market. This lag has a negative impact on the sales of UAZ vehicles, which decreased in 2018 by 9 % compared to 2016³. The development strategy followed by Sollers PJSC is designed to ensure the growth of products of both domestic and foreign production at joint ventures, as well as solution of internal problems of the company. The main areas of this strategy are:

- growth in production and sales of cars and auto components, including due to development of exports;
- updating the model range;
- creation and successful development of joint ventures with foreign partners companies: Mazda, Ford, etc.;
- development of own telematics platform and implementation of IoT-based changes in the company's car production;
- expansion of new services provided to customers, including subscription services.

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