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**Pre-release material**

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**Advice to Centre Staff and Candidates**

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Candidates are expected to be familiar with the evidence provided here for the Unit 4 question paper before entering the examination room.

A copy of this pre-release material will be included in the question paper, together with some new evidence, which should be studied carefully before answering the questions.

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## Evidence A

### Major Car Companies

Companies	Revenue	Net income	Product	Employees
General Motors	£100.1 billion (2005)	£5.5 billion (2005)	Buick, Chevrolet, Pontiac, GMC, Saturn Hummer, Saab, Cadillac, Holden, Opel, Vauxhall, Isuzu, Suzu	326,999 (2006)
Renault	£28.3 billion (2005)	£2.4 billion (2005)	Renault, Dacia and Samsung Motors	126,584 (2005)
Nissan	£39.3 billion (2004)		Nissan, Infiniti, Dongfeng	159,771 (2005)
Fiat	£31.9 billion (2005)	£0.9 billion (2005)	Fiat, Ferrari, Alfa Romeo, Maserati, Lancia	220,000 (2005)
Volkswagen	£34.5 billion (2005)	£0.5 billion (2005)	Audi, Seat, Škoda, Bentley, Bugatti and Lamborghini	344,900 (2005)
Porsche	£4.5 billion (2005)		Porsche	11,910 (2005)
Daimler Chrysler	£102.7 billion		Chrysler, Detroit Diesel, Dodge, Jeep, Maybach, Mercedes-Benz, Western Star, Maybach, Smart, Mercedes – AM and GEM	382,724 (2005)
BMW	£31.3 billion (2005)		BMW, Mini and Rolls-Royce	106,179 (2006)
Ford	£83.2 billion (2006)	£6.6 billion (2006)	Ford, Jaguar, Land Rover, Aston Martin, Lincoln, Mazda (33.4%), Mercury, Volvo (cars only)	327,531 (2006)
Toyota	£93.1 billion	£6.1 billion	Toyota, Lexus, Scion	285,977 (2006)
Peugeot Citroen	£38.6 billion (2005)		Peugeot, Citroen – Dongfeng Peugeot-Citroën Automobile (China) Iran Khodro	Not available

## Common Platforms

Companies use the same platform for different models in their own product range. For example, a common sub-frame is used by Volkswagen for the Polo, Škoda Fabia and Seat Ibiza.

### Collaboration and shared ownership

In order to cut costs most of the major manufacturers have developed vehicles in collaboration with each other, or developed different models using the same vehicle frame. The VW Sharan, Seat Alhambra and Ford Galaxy share many common features, as do the Peugeot 807, Citroen 8 and Fiat Ulysse. They are the result of co-operation between rival motor manufacturers. 5

Shared ownership has become a common feature of the car industry in recent years. Renault has a minority stake (20%) in the Volvo Group. It also has a 44.4% stake in Nissan, which in turn has a 15% stake (non-voting) in Renault. Together they represent more than 9.8% of the worldwide market. Ford holds a 33.4% stake in Mazda, while General Motors has a shareholding in Fiat. 10

Other manufacturers have preferred to set up joint ventures. Toyota Peugeot Citroën Automobile Czech (TPCA) is a joint venture between Toyota Motor Corporation and PSA Peugeot Citroën of France manufacturing small cars for the European car market. In contrast Valmet Automotive in Uusikaupunki, Finland, has created a successful niche for itself, producing cars and other vehicles for other manufacturers, including Saab, Lada, Opel and Porsche. 15

(Source: adapted from [www.en.wikipedia.org/wiki/Volkswagen](http://www.en.wikipedia.org/wiki/Volkswagen))

## Evidence B

### UK motor manufacturing industry is booming

Production and sales may be slipping but the car industry is investing in new models and technology to produce more environmentally friendly and fuel efficient vehicles. Sales of diesel cars now account for more than 40% of the market.

Honda and Nissan are developing new products and recruiting more workers. Bentley, owned by Volkswagen, and Rolls-Royce, now part of BMW along with the Mini, are regaining lost business in that part of the market where status and money provide a comfortable mix. 5

Rolls-Royce is finding buyers among China's new rich while BMW has given the Mini yet another facelift, and Audi, the VW luxury car brand, is debating whether to build an Audi 'Mini'.

Niche producers – Aston Martin, Morgan, Bristol, Caterham and Lotus continue to hold considerable specialist appeal. Morgan and Bristol are launching new products while Ford is offering Aston Martin to the highest bidder. 10

Other niche manufacturers continue to do well. Bristol Cars, once part of the Bristol Aeroplane Company, and now the only luxury carmaker remaining in private British hands, has built its reputation on engineering and offers to maintain any car that has come off its Filton production line. Only the wealthy can buy its new Fighter car, with an eight-litre V10 engine with a top speed of 210 mph. 15

Morgan, the family-run sports car business that famously rejected the advice of Sir John Harvey-Jones, former ICI chairman and star of the BBC's Troubleshooter, to be more ambitious and expand production to reduce its four-year waiting list, is adding to its range. With production running at just 10 cars a week Morgan remains cautious, conservative and exclusive. Only 100 of the new Morgan AeroMax will be built at the Malvern works. 20

It is not all smooth motoring. The demise of Rover and the contraction of Vauxhall have been a blow to the thousands who have lost their jobs. Ford struggles to make Jaguar profitable, partly due to the strong pound and the weak dollar.

Most of the volume carmakers are managing to grow and add value at a time when overcapacity and falling profit margins are forcing a radical overhaul of the US car industry. 25

The changes resulting from globalisation mean the UK is now a major car importer and exporter. The efforts to persuade Japanese manufacturers to build factories in Burnaston (Toyota), Sunderland (Nissan) and Swindon (Honda) while the rest of the EU tried to keep them at bay have paid off in the shape of sustained investment and product commitment. 30

The UK's position as the home of world motorsport is fuelling investment in new car models and technology. Volume carmakers have invested heavily in motorsport to help their brands and take advantage of what the engineers can deliver for the cars of the future.

There are an estimated 4,000 companies involved in the motorsport manufacturing industry, employing 38,500 workers. The engineering sector of the industry has a turnover of almost £3bn, over half of it exported. The supply chain is extensive and sophisticated, providing everything from chassis to engines and brakes and transmission systems that give performance cars their edge. The "creative" side of the industry – events management, public relations, marketing, sponsorship and other support functions – represents an additional £1.7bn of business. 35

(Source: adapted from *The Daily Telegraph*, Roland Gribben, November 2006)

## Evidence C

### Nissan awards UK plant the Qashqai

The future of Britain's biggest car factory, Nissan's plant in Tyne and Wear, has been safeguarded with the launch of the world's most unpronounceable car. Nissan's new sports utility vehicle (SUV), the Qashqai, will be built at the company's Sunderland plant, which is Europe's most productive and employs 4,200 staff.

Total UK investment in the new car, which is the first Nissan to be completely styled and engineered in Britain, is about £220m. More than 100,000 Qashqai models will be built at Sunderland every year and exported to countries around the world including Japan. Over 1,000 jobs at the plant have been safeguarded and 200 posts are likely to be created. About 17,000 of the models are expected to be sold in this country annually. 5

Nissan Renault Alliance boss Carlos Ghosn said Qashqai, which replaces the Almera, is a more complicated car to build and so there are no savings in production man-hours, especially as Japanese legal requirements require a number of different specifications to be used. 10

(Source: adapted from *The Daily Telegraph*, Andrew English, September 2006)

## Evidence D

### VW chief forced out as Porsche raises stakes

Porsche, the luxury sports carmaker, could raise its stake in Volkswagen to close to 30% to cement its control over Europe's biggest auto-manufacturer after the enforced resignation of Bernd Pischetsrieder as chief executive, sources said yesterday.

Mr Pischetsrieder quit after a management committee headed by the VW chairman, Ferdinand Piech, unanimously delivered a vote of no confidence. Analysts said the decision to get rid of Mr Pischetsrieder cast doubt over VW's restructuring plans, designed to deliver €5.1bn (£2.3bn) pre-tax profits by 2008, and other senior management posts. 5

IG Metall arranged a deal raising VW's working week in its six German plants for no extra pay but is known to have scuppered earlier plans to sell off or close component plants.

Investors are worried that the union has regained a powerful hold over decision-making at VW. But some analysts argue that Mr Pischetsrieder was removed because of his lack of ruthlessness in executing VW's recovery programme. 10

(Source: adapted from *The Guardian*, VW chief forced out as Porsche raises stakes David Gow in Brussels, November 2006)

### Toyota poised to become world's biggest car maker as GM stalls

Toyota is expected to overtake General Motors as the world's No 1 carmaker. GM is struggling to deal with competition from Japanese and Korean automakers.

Toyota has dented GM's market share in North America with its range of fuel-efficient cars which appeal to drivers concerned about mileage and pollution. Interest in its hybrid cars, notably the Prius, has increased as a result of rising oil prices. GM meanwhile has thousands of unsold Sports Utility Vehicles. 15

Growing demand in North America has prompted Toyota to consider opening another plant there, the firm's president, Katsuaki Watanabe, said yesterday. It already plans to open new factories next year in China, Russia and Thailand. GM, by contrast, has been forced into a huge restructuring effort as a result of falling market share. Ford, meanwhile, had a 16.2% share of the US market during the first 11 months of this year, compared with Toyota's 15.3%. The US firm said its US market share could slip further to 14% – 15% next year. 20

Toyota expects to sell 9.34m cars next year from an estimated 8.8m this year. The carmaker has also forecast a record net profit for the current financial year of 1.55 trillion yen (\$13.1bn). The firm is valued at almost \$230bn, about 14 times GM's market capitalisation, and its shares have gained almost 27% this year. 25

Despite record sales, Toyota's reputation for quality has been hit by a series of recalls that some blame on cost cutting. Mr Watanabe insisted that quality, not quantity, would remain the priority. 30

(Source: adapted from *The Guardian*, Toyota poised to become world's biggest car maker as GM stalls, Justin McCurry in Tokyo, December 2006)

## Evidence E

### Dealerships

New car sales are falling due in part to decreasing consumer confidence as fuel bills rise and concern over job security and high interest rates. The decrease in new car sales means that dealers need to increase their profits by other means (servicing and used car sales).

Many UK consumers believe they are being ripped off by new car pricing. They are concerned about price rings and collusion in the car market. Press adverts, car supermarkets and the internet continue to prompt consumer expectations of lower prices. As a result consumers are prepared to shop for longer and search more widely for a bargain. 5

Lower selling prices due to price pressure from consumers, over capacity and an extremely competitive market mean that margins in the car retail sector are being squeezed, with the industry average in the UK at 1%. Used car profit margins are also being squeezed. Between 1999 and 2004, the demand for servicing decreased by 8% due to increased service intervals and improved vehicle reliability. 10

Consumers are increasingly arranging their own finance. This means that motor traders are losing out on the commission paid by finance companies to dealers who arrange finance. Government regulation has increased staff training costs. 15

The UK market is changing. Mass brands are being squeezed by value brands at the lower end of the market and the premium brands that continue to grow.

Dealer success is increasingly linked to the strength of the brands they represent and whether the brand is developing exciting products that generate sales without the dealer giving away their margin in the form of consumer discounts. 20

As the market for new cars becomes increasingly competitive manufacturers have sought to achieve production efficiencies and reduce the price paid to suppliers. Manufacturers are also cutting costs incurred after the cars have left the factory gate, including the dealers' profit margins.

One consequence of profit margins being squeezed is that dealerships are likely to merge and consolidate. Some may go bankrupt. This could be bad for a range of stakeholders, including manufacturers and customers. 25

(Source: adapted from 'Restructuring Car Dealership', Ernst & Young 2006)

## Evidence F

### Are Chinese carmakers trying to do too much, too soon?



China's carmakers are feeling smug. Crowds swarmed around the stands for the unveiling of each new model. Chinese firms felt confident enough to show off not just their newest low-cost runabouts, but also luxury and sports models and even hybrid and electric vehicles. Local carmakers in the world's fastest-growing and third-biggest car market would appear to have come of age.

5

Almost every international carmaker in the world has moved into China in the past decade, and they have been surprised to discover that their toughest competitors are the upstart local firms. Until recently many Chinese carmakers built thinly disguised copies of vehicles made by Volkswagen, General Motors and Toyota. But in the past few years things have changed. In preparation for a push overseas, local firms such as Chery, Great Wall and Geely have proved that they can develop their own vehicles. By buying designs from international specialists and installing fancy robotic production lines, they have been able to launch a wide variety of their own cars. More than 100 new models will be introduced in China this year.

10

These efforts have brought considerable success. In the first ten months of this year 5.8m cars were sold in China, up 26% over the same period last year—and Chinese carmakers captured 27% of the market. They will also export 75,000 vehicles this year to over 100 countries. But what most worries foreign carmakers is the Chinese firms' ultra-low prices. The latest Shanghai Maple, for example, with leather seats, anti-lock brakes, air conditioning and a two-year warranty, costs a mere \$6,500. Foreign firms grumble that they cannot even buy the steel needed to make a car for that price.

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How much of this miracle is the result of good business sense—rather than the special treatment granted to local firms—is not entirely clear. A lot of the early technology was borrowed. The government also offered support to fledgeling firms via direct investments and guaranteed loans. Universities provided technical help, especially in the development of expensive engines. The authorities even considered introducing a law that would mandate a 50% market share for local firms by 2010. Future legislation is likely to force foreign firms to do more research and development in conjunction with Chinese partners, to ensure continued access to cutting-edge engineering skills. So there has been support from the top. Yet this is arguably no different from the sort of support given to Japanese carmakers 40 years ago, or to South Korean firms 20 years later.

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What is different in China is the pace of development—and therein lies the concern. Is it possible that China’s local carmakers have grown so quickly that they have not developed the necessary depth of skills? In a market where buyers are unashamedly experimental, brands have little value so far, except in the luxury segment. For most buyers cost is more important. But consumers are beginning to discover the consequences. As carmakers have produced more cars, quality has deteriorated. 35

According to the latest China Automobile Customer Satisfaction Index, the number of faults per 100 cars made in China rose from 246 in 2005 to 338 this year. Four out of five cars now experience a problem in the first six months of ownership. But with average retail prices falling by \$1,250 a year, producers are racing to cut costs, not improve quality. Intense competition is also forcing them to accelerate development cycles. Carmakers acknowledge that this means they are being forced to use lower quality materials and spend less time on testing. So reliability is likely to deteriorate further. 40

### **Stepping on the brake**

Quality problems have delayed the Chinese carmakers’ ambitious plans to build export sales in the developed world. Currently most Chinese car exports go to Africa, south-east Asia and the Middle East, where expectations are lower and price matters more. The big push into the developed markets by Chery and Geely planned for 2007 has been delayed until 2008 or later. Plans to launch hybrid petrol–electric cars have also been put back. 45

Foreign firms have enjoyed increasing sales, but feel disadvantaged by the support local firms have received and by legislation that required them to enter joint ventures with firms that were also their competitors. Foreign firms should benefit in the coming years as the market matures, buyers begin to value brands and quality, and a second-hand market develops so that residual values can be measured. 50

Local carmakers in Japan and South Korea came to dominate their domestic markets through a combination of cost competitiveness, nationalistic buying and technological leadership. Today, Japan’s Toyota and South Korea’s Hyundai make some of the most advanced, reliable, high-quality cars in the world. By pushing too fast, China’s domestic carmakers are putting their current market dominance at risk. They have progressed quickly thanks to government support and undemanding, cost-conscious consumers. As buyers begin to pay more attention to the reliability and resale value of their cars, their loyalties may change. 60

(Source: adapted from *The Economist*, print edition, ‘Are Chinese carmakers trying to do too much, too soon?’ November 2006)

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