The Automotive Industry in Italy

Summary

The Italian automotive market as a whole has been growing in the last few years. However, in 2008, and especially in 2009, due to several factors (the economic crisis, the increase in gasoline price, etc.), the Italian vehicles market has shrunk compared with record high levels attained in 2007.

In general, as a result of the focus on high tech and the availability of globally sourced high quality/design products, the Italian market is highly competitive. Therefore, the market does offer interesting opportunities to U.S. companies that provide high tech and innovative products. Moreover, the current Euro/$ exchange rate can further increase the competitiveness of U.S. products.

Market Demand

According to data recently released by ANFIA, (The national association of car manufacturing companies), and by "Centro Studi Promotor", a major Italian automotive research organization, sales of new cars in Italy are expected to total 2,030,000 units in 2009 (down six percent from 2008). This negative result is mainly due to the global economic crisis (even though initial predictions were far more pessimistic, expecting sales to shrink to 1,850,000 units).

In February 2009, the Italian government intervened, as did other European countries, to counterbalance the negative effects of the crisis and stabilize the shrinking market. Some other incentives were provided by regional (i.e. State) governments. All the incentives were aimed to support sales of less polluting, more economical cars, and therefore resulted in discouraging sales of larger models.

Incentives are having a major role in supporting the market: Six out of ten new vehicles sold are eligible for some sort of incentive. Incentives also contributed to some redistribution of market share among manufacturers. Fiat Group, the local market leader specialized in mostly small and medium sized cars (with its brands Fiat, Lancia, Alfa Romeo, Ferrari, Abarth, and Maserati)
garnered a strong 33.5 percent market share in August 2009. Fiat is basically the only automotive manufacturer in Italy (apart from niche brands like VW-owned Lamborghini and dR, a joint venture between an Italian company and a Chinese firm).

All the major U.S. manufacturers, Chrysler, Ford Motor Company, and General Motors Corp., operate here through their European subsidiaries. They usually sell cars manufactured in Europe (Germany, etc.). Despite some back and forth about possible changes, at this time, GM in Europe sells mostly Opel, Saab and some Cadillac and Chevrolet branded vehicles made in the U.S. and South Korea. In Europe, Ford sells unique European models under its own brand name, as well as Volvos. Chrysler is represented by Chrysler, Dodge and Jeep brands. Direct imports from the U.S. are relatively few.

As in other countries where the cost of gasoline is high, fuel economy is an important issue for many Italian car buyers. Until 2008, Italians showed a preference for diesel cars due to the lower price of diesel fuel in Italy. Thus, diesel engines power not only large cars, but also small ones like the city car Smart and the top selling Fiat Punto. Starting from 2008, the rising oil prices almost equalized the price of gasoline and diesel fuel. As a consequence, gasoline cars, which tend to have higher fuel consumption, but lower retail price and insurance costs, have retaken the lead in sales. Due to recent government incentives, now Italians are even more interested in alternative fuels (which can obtain higher incentives).

Italy is one of the major countries in the world using alternative fuels such as LPG and CNG. Drivers consider both the economic and environmental implications of such a choice.: In fact, CNG and LPG vehicles are among the few vehicles allowed to circulate on any day in major Italian cities, as they meet stringent regulations implemented to limit air pollution in the congested urban centers of various Italian cities.

There is also growing interest in Italy for hybrid-electric cars, and other small cars with low CO2 emissions. The Honda Insight and Toyota Prius are already available in the market and quite popular, especially among taxi drivers. In 2010, Smart is planning to deliver the first electric cars in a project with the Italian utility ENEL. The U.S. all electric brands Tesla Roadster and Fisker are also expected to be available in Italy soon.

Major Agreements in the Market

In early 2005, GM and Fiat Group ended their financial and manufacturing agreement in place since March 2000. Nevertheless, GM Powertrain Europe kept its powertrain headquarters and
engineering center in Turin, which is taking the lead in the group for small diesel engine manufacturing and engineering activities. GM Powertrain Europe became operational in May 2005.

In November 2005, Ford Europe and Fiat struck an agreement to jointly develop a small car, (engine and transmission supplied by Fiat), to be produced in a Polish Fiat plant and marketed from 2007-2008. The results of the agreement are the new Fiat “500” and Ford "Ka" models.

The biggest news, however, has to be the January 2009 Chrysler and Fiat announcement whereby Fiat would receive an initial 20 percent stake in Chrysler (which could be raised to 55 percent in the future after "new" Chrysler repays its debts to the U.S. Government). According to the terms of the deal, Fiat received the 20% stake without contributing any cash, but instead by providing management know how and expertise in products and platforms for small cars, as well as its green technologies, with Chrysler. Besides providing support to Chrysler, the deal should also help Fiat return to the U.S. market where it has long been absent. Chrysler will access Fiat's relatively strong network in Europe and South America while Fiat stands to benefit from Chrysler's manufacturing facilities and dealer network in North America. The parties believe the alliance will allow both companies to optimize their respective manufacturing footprint and global supplier base, and to cut costs by combining their purchasing power. This alliance could lead to new opportunities for U.S. parts and components manufacturers.

The Italian Market for Parts and Service Equipment

The local market for automotive parts and service equipment declined during recent years, due to a general decrease in vehicle production, which dropped significantly in 2008 and 2009. Production is now at an all-time low, slightly more than 1,000,000 vehicles in 2008. Cars make up 65 percent of the total, light commercial vehicles account for 30 percent, and the remaining five percent is divided into big trucks and buses. The decrease in sales has certainly had a negative impact on the domestic industry and will have future negative consequences, especially in the OEM market. Increasing local production will probably be very difficult for many reasons: vehicle stocks need to decrease; the economic crisis and the credit crunch are still hitting hard, and therefore consumers tend to avoid replacing old vehicles; customers are shifting their purchases towards smaller vehicles, many of which are not manufactured in Italy, but in Eastern Europe, etc. The impact on the aftermarket should be less severe. In fact, many car owners who are not going to replace their old cars will still need to do more maintenance to keep their old cars operating safely and efficiently.

Domestic Italian production of automotive parts and service equipment covers approximately two-thirds of the demand compared to one-third covered by imports. Sales of original equipment (OE) parts account for around 65 percent of the total components demand, while aftermarket (AM) sales account for 35 percent.
Big multinational firms (many of them American with operations located in Italy) control the local tier-one parts market. The need for proximity to the manufacturer, delivery requirements, transportation costs, etc., makes it very difficult for firms not physically located in Italy to enter this competitive market.

Imports are in general greater in AM rather than in OE, due to the presence of modern distribution channels and transnational operators, improved performance of foreign automotive organizations and greater competitiveness of imported products. Products are imported from European countries like Germany (around one-third) and France (about one-fifth). Imports from the U.S. are relatively low, but interesting niches exist.

**Servicing**

Even though federal and local governments tend to encourage owners to discard their old vehicles, Italy has still one of the oldest circulating auto fleets in western Europe, (about one-third is older than ten years). This means there are significant expenses related to maintenance services.

At the same time, the higher frequency of periodic compulsory motor vehicle inspections and stricter pollution control regulations in Italy have forced the replacement of parts and the use of modern service equipment. In particular, service shops have to invest in new equipment and technologies to provide suitable maintenance in order to be able to maintain sophisticated electronic systems.

New European standards on auto servicing, implemented in 2003, mandate that independent professionals are entitled to receive from car manufacturers any technical information and training needed to repair any kind of automobile. This represents a significant market opportunity for Italy’s 50,000 independent repair professionals who, along with around 4,000 garages belonging to the official networks, make up the Italian auto repair industry. Moreover, the so-called liberalization of the distribution allows the use of spare parts "complying with the original", and of "equivalent quality" to those made by manufacturers. This tends to reduce the hold on the parts market by auto manufacturers. Some experts believe there is little or no quality difference among the top brands and that non-genuine parts offer comparable quality at a lower price.

AOn the other hand, mandatory EU regulations have forced car manufacturers to warrant their vehicles for at least for two years. Some manufacturers have extended the product warranty for up to seven years. As a result, customers tend to utilize official garage networks while the cars are under warranty. This strengthens the auto manufacturer’s relations with the customers and allows
the manufacturer to generate more revenue, which would otherwise be lost due to increasing
competition and lower sales volumes.

Auto Tuning

The Italian auto tuning market is one of the largest in Europe, even though there are hundreds of
types of cars in the market and their versions are as many as about 4,000. Italians tend to be very
individualistic, and like to distinguish themselves. All of the auto tuning sub-sectors may offer
interesting opportunities to U.S. manufacturers, provided that they are able to supply extremely
high quality/design accessories, for which many Italians are certainly ready to pay an extra
premium.

Nevertheless, recent data provided by Centro Studi Promotor (C.S.P.), a research center
specialized in the automobile market and that supports the organizers of Italy’s major show in the
sector, ‘My Special Car’, highlights that almost half of Italian customers decide to add at least one
or more options offered by the manufacturer to the already ‘special’ model that they have chosen;
and 14 percent of them look for extra gadgets not provided by the manufacturer. This trend to
personalize or customize one’s vehicle is particularly common among younger (under 35 years
old) customers.

Until recently Italy had one of the strictest regulations regarding tuning in Europe, thus limiting
many car tuning options. Apparently the situation is now changing to allow more flexibility for
tuners, i.e., to allow tuning without prior consent by the vehicle manufacturer. Moreover, the
decrees implementing the new laws should be issued soon by the Italy’s Ministry of Transport,
with input from Ascar, the Association of the Italian manufacturers and distributors of special
accessories and components for vehicles. Ascar is pushing for a change in the regulations, which
should ease restrictions on alterations and close the regulating gap between Italian and EU
regulations. According to Centro Studi Promotor, these changes should boost the sector and double
the sector’s turnover (from the current around one billion Euro). It is likely the laws governing this
sector will become similar to those of other European countries where a third party certifies the
alterations made.

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