

Asia Offers New Pickups, SUVs

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Is the U.S. market ready for pickup trucks and SUVs from China and India? Two enterprising importers are betting on it. Each one, however, is taking a different approach, and each touts a unique selling proposition.

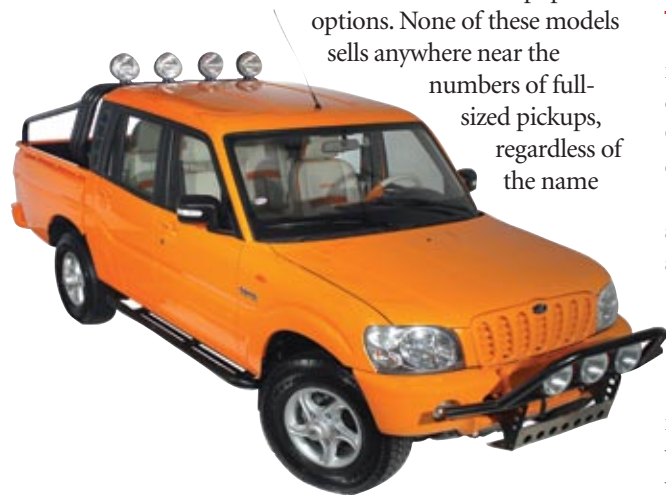


John Perez,
CEO Global
Vehicles

The world's largest market for automobiles seems to show, over and over, that there is never a niche too small to be filled, or a market segment too small to warrant a business case. Consider the mid-size pickup truck segment. They used to be called "compact" pickups.

That was back when they were about 1,000 pounds lighter and GM, Chrysler, and Ford sourced their small pickups from Isuzu, Mitsubishi, and Mazda, respectively. Those captive import pickups were known to us as the Chevrolet LUV, Dodge D-50 and Ford Courier.

Today, compact pickups weigh two tons when equipped with four-wheel drive and other popular options. None of these models sells anywhere near the numbers of full-sized pickups, regardless of the name



on the tailgate. Toyota leads the pack with its Tacoma line at 121,519 unit sales through August, a 3.7 percent rise over the same period last year. The rest are far behind and showing significant declines for the year (except Isuzu, which jumped from 2,357 units sold to 2,945 units sold, for the first eight months of 2007).

"It is particularly challenging to be in the compact pickup truck segment," said John Casesa, a partner in the Casesa-Shapiro Group, an auto advisory firm in New York. "There is excess capacity right now, and everyone has been cutting prices. It's hard to undercut established brand names," he told AIADA.

Yet, in this difficult segment, two upstarts hope to find fortune by importing pickup trucks from East Asian manufacturers. By next summer, CHAMCO Auto, headquartered in Parsippany, N.J., plans to begin importing pickup trucks and SUVs from the Chinese manufacturer, Hebei Zhongxing Automobile Company, Ltd. — a.k.a. ZX AUTO China. Meanwhile, Atlanta-based Global Vehicles U.S.A. is preparing to introduce mid-size pickups and SUVs built by Mahindra of India, starting in about 18 months.

A Truck with No Name ... Yet

Faced with undeniable stagnation in this segment, each importer touts different trump cards: low price for CHAMCO's Chinese trucks, and a diesel engine for Global's trucks from India.

Bill Pollack, CEO of CHAMCO Auto, said the ZX AUTO China trucks will set two precedents: they will be the first pickup trucks and SUVs from China to be sold in the United States, and they will also be the lowest-priced pickup trucks and three-row SUVs to be sold in this market. The base pickup model will retail for under \$14,000 equipped with standard anti-lock brakes, air

conditioning, and a five-year/50,000-mile warranty. A deluxe version will sell for about \$3,000 more. Pollack said the longer-term CHAMCO strategy is to offer a full line of vehicles with entry-level pricing. A crossover SUV and a sedan are expected to follow a year after the pickup trucks and SUVs.

The ZX AUTO China pickup and SUV will initially feature a four-cylinder gasoline engine. What CHAMCO's Chinese trucks lack right now, however, is a name. Pollack said they couldn't be branded as "ZX" in the U.S. but that branding will be worked out in the next few months.

A Different Vision from India

"We will not be the lowest-priced trucks on the market," John Perez of Global Vehicles said. "The Scorpio SUV will start in the mid 20's, and the pickups a bit less than that." The trucks are on sale in several European countries now.

The Mahindra diesel engine, though, could be a major selling point. Currently, no manufacturer offers a diesel engine in a light-duty pickup or SUV in the U.S. market. In heavy-duty pickups from GM, Ford and Dodge, diesels are in demand. Moreover, diesels are expected to gain in acceptance and popularity in more types of vehicles over the next few years.

A four-cylinder turbo-diesel mated to a standard six-speed automatic transmission will give the Mahindra pickup up to 30 miles per gallon fuel economy, Perez claimed. Developed with help from Bosch and AVL Powertrain, the diesel will have the "same clean-diesel technology as Mercedes and BMW," he explained, referring to the German automakers' urea injection system which cleans up diesel exhaust in order to meet emissions standards. A 4-year/60,000 mile bumper-to-bumper warranty may



also include free scheduled maintenance for the warranty period, he added.

Mahindra trucks will enter the market with brand recognition, at least in some circles. Mahindra built the Willys Jeep under license in the 1940s, International Harvester agricultural tractors in the 1960s, and European Ford Escorts in the 1990s.

Although Global Vehicles is not associated with Mahindra Tractors USA, Global employees ended up fielding about 300 phone calls from farmers who saw a Mahindra pickup posed in a trade magazine ad for Mahindra tractors. The farmers may be pleased with their tractors, but the pickup truck's diesel engine could be a bigger draw for them, given the tax breaks they get on diesel fuel (and increasingly, biodiesel).

Bigger is Better, but Where's the Crossover?

Pollack and Perez were each quick to rattle off more benefits of their trucks. The ZX Auto two-door pickup will have a 63-inch bed and the SUV will come with three-row seating. Perez boasted that the Mahindra two-door pickup will have both the longest bed in the segment and the highest load capacity – just over one ton. Both importers will offer two- and four-door pickups, and both the ZX Auto and Mahindra SUVs are based on their respective pickup truck frames.

Perez also mentioned that the Mahindra Scorpio SUV was the subject of a Harvard Business School case study from 2005. Nowhere in the Harvard study – which is downloadable from the Global Vehicles website – did its authors mention that crossover-type SUVs had essentially eliminated body-on-frame vehicles in the compact segment and were increasingly displacing them in mid-size and even larger segments, too.

How Many, How Soon?

Pollack projects sales of 75,000 vehicles for CHAMCO through 150 sales points in its first full year, and dealers own shares in the company. CHAMCO's dealer agreement allows a maximum of two touching sales points and will allow three years for shared facilities, unless a dealer achieves higher unit sales targets sooner. "A lot of dealers have extra room right now," Pollack said.

Global has recruited 244 dealers who have each invested \$150,000, and Perez is aiming for 400. Dealers are expected to invest in separate selling areas, which Perez estimated at \$250,000-\$1 million. He projects 40,000 Mahindra sales in the first year, doubling in the second year. "Our dealers have even more aggressive projections," he added.

Words of Caution on Price, Quality, and Safety

Specifically addressing the CHAMCO plan, auto analyst Casesa said that while the \$14,000 price CHAMCO promises is compelling, low price is not enough for the long term. "Hyundai is a good example for combining a fair price, quality and content," Casesa said. He also cautioned on quality, both with the vehicle and the dealer experience. "Consumers are sophisticated, and they will expect higher quality than when the Korean brands started here," he said. But despite his warnings, Casesa believes that Chinese manufacturers will ultimately succeed in the U.S. market.

According to Casesa, the recent spate of safety recalls of Chinese consumer products could have an effect on how consumers receive automobiles from China. "But the Chinese will overcome [problems]," he quickly added. He had more pointed words regarding the sales and service aspect. "As vehicle quality

becomes better, the distribution system becomes a bigger differentiator. You're at a competitive disadvantage if you don't have strong service. American consumers are more time-sensitive than ever."

And no one is more familiar with this reality more than Hyundai and Kia, two Korean automakers who began their days in the U.S. market plagued with quality issues, and in less than a decade both have soared to the top of the nation's most prestigious safety and initial quality studies.

When asked about the feasibility of Chinese vehicles entering the U.S. market, Len Hunt, executive vice president and chief operating officer of Kia Motors America, told AIADA, "I absolutely see them coming. What the Japanese brands accomplished in two generations we did in two [Korean brands], and it's getting faster all the time."

Hunt has been steering Kia into a design-focused strategy built on brand loyalty while still maintaining the Kia value proposition. He, like Casesa, cautioned on a low-price strategy. "The entry segment is a place to start, but it's temporary. You can easily lose it," Hunt said. "You can't rely on conquering, because somebody inevitably comes along and beats you at that. Brands start there but must work their way up."

On quality and safety, consumers – even the Gen-Y buyers – don't want compromises, Hunt said. "I don't believe anyone can get by on substandard quality, no matter how low the price," he explained. "Safety also communicates quality. Everybody watches the crash tests. When we publicize good crash test scores, it drives showroom traffic. One misstep on quality or safety and you'll find yourself on YouTube. It's a whole different world than when we started here." **AD**