

The Strategy of Development of PJSC “Sollers” in the Russian Car Market

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Abstract:

The automotive industry is a key industry in many countries. Russia is no exception, since the auto industry is directly related to the development of many industries, and serves as a reflection of the social, political and economic conditions. The automotive industry, as a rule, in developed countries makes up more than 10% of the gross national product (GNP). Parallel to the production of vehicles, related industries are developing: road construction, mining of raw materials, fuel production, a wide range of components, and banking. The development of this sector is interconnected with many social, political and economic processes. Russian automakers are working in various conditions, which leads to a decrease in demand for the population, rising prices, a decrease in market dominance, as well as fierce competition from foreign automakers. The research strategy and competitive advantages of the Sollers group of companies, which are developing successfully despite the volatility of development, copyrights, the need for a radical renewal of model cars, the presence of excess production capacities and the departure of three foreign partners of Sollers Group of Companies in joint ventures from Russia – Fiat, SsangYong and Ford. Particular attention is paid to the development of digital technologies in companies, the development of its own telematic platform that allows you to control the car remotely, including starting the engine, providing car sharing and car exchange services. The article also considers the possibilities of developing export cooperation of PJSC Sollers and the problems of creating joint ventures in Russia. The hypothesis of the study is the assumption that a well-formulated strategy for the development of the company is the basis for the growth of its co-competitiveness, which will be considered on the example of the Sollers group of companies.

CCS CONCEPTS

Software and its engineering → Software creation and management → Designing software → Requirements analysis

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INTRODUCTION

A modern company in a market economy is obliged to oppose its development strategy, since the definition of long-term goals, as well as ways to

implement them, is the most important way to adapt a business to an unstable market situation, to a dynamic internal and external environment. Such a long-term plan contributes, on the one hand, to the

determination of the possibility of a company retaining an existing segment in the market, and, on the other hand, to identifying opportunities to “capture” new niches [14-17].

In addition, the development strategy determines the choice of a specific organizational plan, which can lead to certain organizational changes in the company. But, it should be noted that all the planned changes should contribute to increasing the competitiveness of the company. In the context of the digitalization of the economy, changes primarily affect the stimulation of the development of IT technologies, which, undoubtedly, should increase the existing potential of the organization [23].

In 2019 the largest Russian automakers and the Association of Russian Automobile Dealers (ARAD) revised their sales forecasts in the direction of a significant reduction in sales. They ask the government to resume demand support programs, as well as make adjustments to them, because existing programs were significantly reduced in terms of allocated funds and limited by the cost of cars to 1 million rubles, which stimulated the sale of mainly AvtoVAZ cars, which is already the leader in sales in Russia.

MATERIALS AND METHODS

The domestic car market has a fundamental problem that slows down its pace of development - this is a fall in population incomes. “Until something happens here, the market will remain volatile and the role of the regulator will be very large. It is obvious that the whole industry will seek help in the form of measures to support demand for the state,” said Vadim Shvetsov, controlling shareholder and chairman of the board of directors of Sollers PJSC [19, p.10]. The volatility of the Russian car market is characterized by the data given in table 1.

Table 1. Statistics of sales of new cars in Russia

Year	Sales of new cars in Russia
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	(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

RESULTS

Car prices in Russia in 2019 increased due to higher VAT and inflation. The entire domestic auto industry is highly dependent on exchange rates and the weakening of the ruble since August of this year. coincided with another increase in prices at car dealerships. Localization of domestic machinery production does not fully solve this problem, because a lot of technologies, licenses and car components, both domestic and foreign automakers are still forced to import. Rising prices in the face of a decline in real incomes of the population inevitably causes an even greater drop in demand.

Another problem in the sale of cars on the domestic market is the high cost of borrowed funds: the minimum leasing rate is 15%, loans are also expensive. Compared to other markets, Russia has low rates of renewal of its fleet, there are no incentives that force owners to change cars more often. Even taking into account trade-in, the cost of a new car is very significant and many refuse this purchase. Therefore, in order to increase sales, it is necessary to resume state programs of preferential car loans and preferential leasing this year.

Due to a significant reduction in state support and demand from small and medium-sized enterprises in January-May of this year, there was also a decrease

in sales in the segment of light commercial vehicles by 6.6% (see table 2).

Table 2. Russian LCV sales in January-May 2018-2019 (thousand units)

Period	2018	2019	Growth rate (2019/2018), %
January	7	7	100
February	7,8	8	102,56
March	9,2	8,6	93,48
April	10,5	9,7	92,39
May	9,3	7,6	81,73
Total	43,8	40,9	97,38

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

An important means of loading free production capacity in a stagnant market is export, but its capabilities for the Russian automotive industry are significantly limited, as many foreign markets are closed to domestic manufacturers. "We are left with only markets open in terms of tariff protection, where there is mostly not very large consumption", says V. Shvetsov. UAZ is actively developing exports to non-CIS countries, primarily to South America, but the volumes of supplies to this market are quite modest. "It's hard for us to reach large volumes as a niche player. A much more interesting and promising development path is the export of components. A lot of protective measures apply to the finished product; there are fewer or no measures for the components. Therefore, penetration into export through components or through assembly kits

is a simpler approach, in our opinion. We started a very serious project with Mazda: we manufacture engines in the Far East and are integrated into the global supply chains of the concern" [19, p. 10].

The main problem of UAZ today is precisely that its products do not meet modern market requirements and updating the lineup is designed to solve it. To increase sales both in the domestic market and export volumes in 2020 UAZ plans to release an SUV on a platform of class Toyota Land Cruiser Prado worth 1.5 million rubles. "We are confident that many consumers of foreign cars will consider Russian cars that also meet the current moment in terms of quality, properties, price," predicts V. Shvetsov [19, p.10].

Another important area of PJSC Sollers' modern strategy is the 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 in the production of its cars, and also increases the load on free production capacities. In 2011 PJSC Sollers created a joint venture with Ford, although the scale of operations of these companies was significantly different (see tables 3 and 4). Ford was forced to take this step because of a change in the state for the provision of benefits to automakers that were to sign new agreements on industrial assembly. This agreement assumed the creation of production for 350 thousand cars per year and a significant increase in the localization of the production of components. By the time the industrial assembly agreement was signed, Ford had nowhere to expand at its plant in Vsevolzhsk, and PJSC Sollers had two free production sites - in Elabuga and Naberezhnye Chelny, which it introduced into the joint venture.

Table 3. Dynamics of car sales of Ford and UAZ companies in the Russian Federation (thousand units)

Year	Ford sales in Russia	UAZ sales in Russia	Comparison Ford sales / UAZ sales, %
2011	118	57,1	206,65
2012	130,8	60,7	215,48

2013	106,7	51,6	206,78
2014	65,9	49,8	132,32
2015	38,6	48,7	79,26
2016	42,5	48,8	87,09
2017	50,4	41,6	121,15
2018	53,2	41,3	128,81

Table 4. Comparison of Ford Focus sales in Russia and the USA (thousand units)

Year	Ford Focus sales in USA	Ford Focus sales in Russia	Comparison Ford Focus sales in USA / Ford Focus sales in Russia, %
2012	245,9	92,2	266,70
2013	234,6	67,1	349,62
2014	219,6	27,9	787,09
2015	202,5	11,1	1824,32
2016	168,8	12	1406,66
2017	158,4	15,1	1049
2018	113,3	14,4	786,80

The plans that the joint venture partners presented to the officials when signing the industrial assembly agreement presented an optimistic forecast for the growth of the Russian market of passenger cars and light commercial vehicles by 2016 twice - up to 3.7 million cars, and for the production of the joint venture it was planned for this period to increase Ford's share in Russia to 9%. However, the market in these years showed the exact opposite dynamics in 2014. and Ford Sollers JV announced the transfer of enterprises to single-shift operation, dramatically reducing staff (see tables 3 and 4).

Participation in this joint venture did not bring Ford the expected results: in March 2015. she announced a 7 billion loss and the depreciation of investments in the joint venture. Ford's losses were caused not only by the worsening economic situation and the ruble devaluation in the country, but also errors in dealing with dealers made by the previous management of the Sollers joint venture managers, including a sharp reduction in single-brand stores and a significant expansion of the dealer network with a drop in total sales, as well as dealer income.

In 2016 Ford Sollers JV sales volume began to grow, but Ford's market share did not exceed 3% until the end of 2018: Ford could not rise from 10th place in the rating of domestic car manufacturers [6, p.15]. At the same time, the company incurred losses, as its production capacities were clearly redundant: Focus and Mondeo were produced in Vsevolozhsk, Explorer, Kuga and Ford Transit in Elabug, Ecosport and Fiesta in Naberezhnye Chelny. Three separate plants produced two models in very small volumes. Therefore, the decision made by Ford in 2019 to cease production and sales of cars in Russia in the light of the above facts was a predictable event. Although Ford, as a non-controlling shareholder, has remained in the domestic market in the new Ford Sollers Netherlands BV JV, which will produce only Ford Transit light commercial vehicles, this will not cover Ford's losses incurred from leaving the Russian market in the amount of 500 million . dollars, including 200 million dollars of direct cash losses on payments to workers and suppliers.

Apparently, the interests of PJSC Sollers in the joint venture were limited to the promotion of only one

light commercial model Ford Transit, sales of which grew amid falling the rest of the line of cars of the joint venture Ford Sollers. Ford Transit was ideally combined with UAZ models as part of the localization of production of the main components—motors, transmissions, etc. “In terms of product properties, they were the same, and the solutions that were used on Ford Transit are very necessary for the new UAZ,” notes Vadim Shvetsov, chairman of the board of directors of PJSC Sollers [19, p.10]. Therefore, PJSC Sollers is currently developing no less successfully, even after Ford refused to produce cars in Russia.

In 2012 another Mazda Sollers joint venture was created, which began assembling Mazda cars at the Far Eastern automobile plant. In 2016 Mazda Sollers JV signed SPIC (industrial assembly agreement), under which it increased the volume of investments in production up to 2.8 million rubles, launched the production of engines for export with a capacity of 50 thousand units per year and currently already produces three models - Mazda 6, Mazda CX-5 and Mazda CX-9. For 2018 Mazda car sales in Russia grew by 22% to 31.7 thousand units, and for the first quarter of 2019. - by 10% to 6.6 thousand units [13, p. 7]. The development dynamics of Mazda Sollers JV even in conditions of volatility and recession in the Russian market gives hope for the success of its further development, unlike previous joint ventures of PJSC Sollers, which ended with the departure of its partners Fiat, SsangYong and Ford from Russia.

Another fundamental problem of the global and domestic car market is the change in the consumption model, in which the car is transformed from an emotional to a very specific rational product. Consumption transformation means that current customers are ready to completely give up car ownership: they will make a car purchase only in those rare moments when their feelings can subdue the mind, and in most cases, buyers will begin to make rational decisions, choosing the best taxi option for specific trips, car sharing or buying your own car. Therefore, car manufacturers, in principle,

need to change the business model, and it should not be based 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 the car is sold with spare parts, with the repair of the opportunity to turn it into trade-in. It is necessary to make the car an element of the ecosystem — it must learn to generate, receive and transmit information. To do this, you need a telematic platform that allows you to connect the car to the Internet and get all the necessary data from the network. The Internet of things (IoT) should change any automaker more than reengineering business processes, the Six Sigma technique, and the concept of lean manufacturing [5, p.257]. This is a critical area for managing your fleet or vehicle from outside.

The results of IoT-based changes in only one Harley-Davidson plant resulted in:

- acceleration of 80% of the decision-making process;
- increase in profitability by 3-4%;
- reducing the duration of the assembly of products to order by 10-25 times [8].

“A little less than a year ago, we began to create a team of specialists to develop our own telematic platform.” V. Shvetsov notes. “It will allow you to connect a car, and the range of transmitted data and services based on them will vary depending on the requirements of the client. Say, for private operation according to the car-sharing model, these are some services, and for business, others. We are well aware that the main problem in the commercial transportation market is the autonomy of each link in the chain: there is a driver, there is a load, there is a vehicle. Modern telematic products allow you to combine all of these elements into a single fully controllable process, which will guarantee the efficiency of transportation. Other interesting opportunities will be provided for individuals - for example, remote engine start or the ability to exchange cars. In autumn, we plan to present the results of this work on UAZ vehicles” [19, p.10].

CONCLUSION

So, the main directions of the modern strategy of PJSC Sollers include:

- increase in the volume of production and sale of cars and auto components, including due to the development of exports;
- updating the lineup;
- creation and successful development of joint ventures with foreign partners-companies Mazda, Ford and others;
- expanding the services provided to customers and introducing changes based on IoT in the production of company cars.

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