

INDUSTRYNEWS

FASTLANE
research

Issue #7

Automotive Consumer Electronics

The Consumer Electronics Show was interesting this year. Several things stood out on the show floor. First off, there was a significant “in-vehicle technology” section in the show.

With nearly 150 exhibitors, the section was quite noticeable, even with Microsoft’s automotive display being in another hall. There was everything from the standard automotive sound system components, to mobile TV devices, to products that connect a vehicle to networks, and things that help the driver operate more safely.



Secondly, Microsoft is definitely after the automotive market. For a long time now, the design cycle for automobiles had been exceedingly longer than that of mobile electronics. As a result many new vehicles have been introduced without the



latest and greatest innovations.

Microsoft wants to be a part of the solution to that problem.

Two car makers made major announcements involving Microsoft in their vehicles.

Ford that announced the new MyFord Touch™ driver connect technology, which blends interfaces in

consumer electronics such as MP3 players and mobile phones, with a new generation of Ford's SYNC® system.

The second generation of SYNC has been built using the latest technology from the Windows Embedded Business at Microsoft. By employing a Media Hub for interfacing with external devices and media, Ford has helped ensure compatibility with future innovations.

MyFord, which will be branded as MyLincoln Touch and MyMercury Touch on respective Lincoln and Mercury brand products, redesigns the in-car interface, mirroring how consumers interact with most devices in their lives



using touch-sensitive buttons, touch screens, thumb-wheel controls and voice recognition.

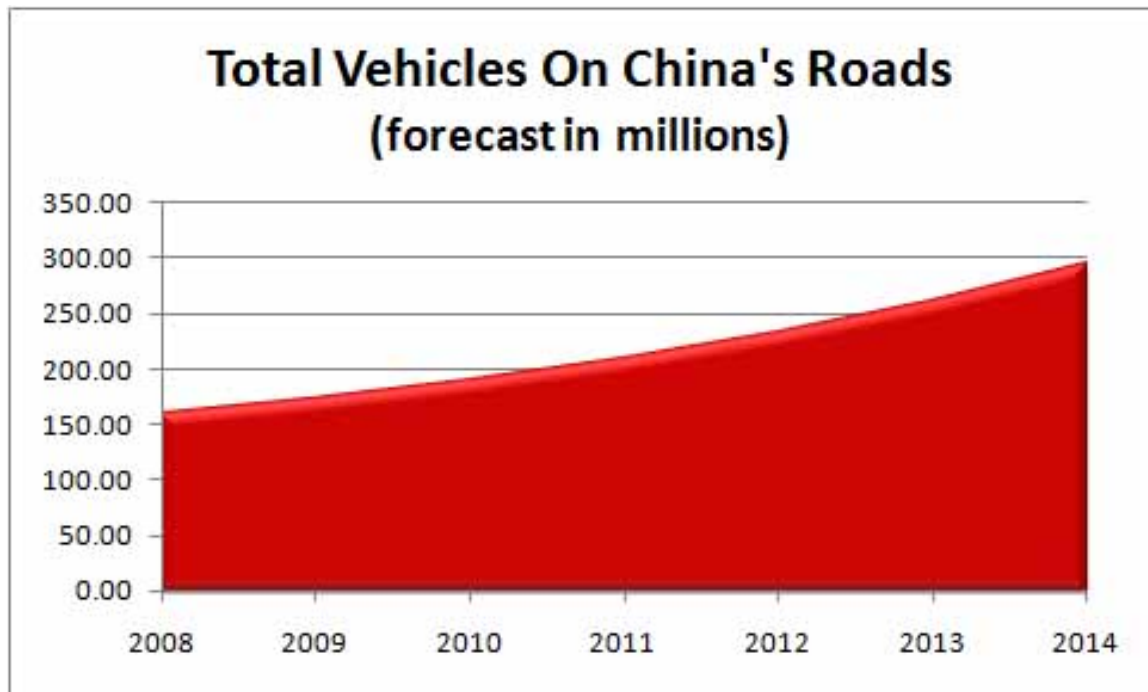
The other car company was Kia that unveiled a Microsoft powered system called UVO. UVO is an interactive, consumer friendly voice- and touch-activated system for simple management of music files and hands-free mobile phone operation.

Third, attendance was good. According to CEA, by the end of the second day attendance had surpassed the 2009 mark by more than 4,000. They are reporting that 112,515 attendees had already shown up. They know the exact figures because they give out badge holders at the show and the numbers are audited. The numbers are interesting considering how tough the economy has been the last couple of years. Plus many of the folks we spoke to seemed upbeat about how 2010 is starting. Let's hope they are correct and 2010 turns out to be a very positive year for business.



China Automotive Population to Match US by 2013

Total light-vehicle sales in China for 2009 were 12.7 million compared to 10.4 million in the US. Those new-vehicle sales add to an already growing vehicle population that will soon surpass the US.



In 2009 new-vehicle sales in China increased of more than 44% and set a new record in unit sales with an estimated 13.6 million light and heavy vehicles. Of that 10.3 million were passenger cars and 2.4 million were light trucks. At the same time US new light-vehicle sales dropped 21%. Some of the automotive sales growth in China is due to the \$586 billion in government stimulus.

The new vehicle sales projection for 2010 in China is an increase of 20% according to a well placed Chinese official. In comparison, JD Power is forecasting a more conservative increase in the 7% range. Either way, to have an increase of any size following a 45% run-up is amazing. Expect to see US automakers move the Chinese market up in their priority lists. With GM and Ford reporting sales growth of 67% and 44% respectively, there has to be increased attention to the market to offset market losses in the US.

China New Vehicle Sales Trend

Year	Units (in Millions)	% Change
2009	13.6	44.7%
2008	9.4	8.0%
2007	8.7	24.3%
2006	7.0	20.7%
2005	5.8	

Not all of these vehicles are passenger cars and light trucks, but it gives you a sense of how quickly the market is growing. In 2009, 12.7 million of the new vehicles sold were cars and light trucks.

The question is, when will China be a viable market for performance parts and accessories. As of Jan 2008 there were 160 million vehicles operating on China's roadways, compared to more than 255 million on US roads. If the new vehicle sales trend continues at its current pace it won't be long before China has a vehicle population comparable to the US. In fact, if you assume an annual increase in new vehicle sales of 20% and negligible scrappage, China should have a similar vehicle population as the US by the end of 2013. That's only four years from now!

Other key parts of the equation are the consumer demographics and attitudes in China about customizing. The US market for performance parts and accessories has blossomed around a strong middle class with discretionary income, and a love of cars. Are those same factors at play in China?

Many business analysts and economists are saying China is poised for huge growth in consumer-product sales based on huge increases in the middle class. As with everything in market research, how you define things makes all the difference in the numbers. If we say that the middle class in China has an annual income of about \$9,000 US, then about 14% of the population is middle class today. If current trends continue there will be more than 600 million middle class consumers in China by 2015. That's nearly double the whole US population today.

So the vehicles will be there and the consumers will be there, but will the consumers be inclined toward customizing? The short answer is YES! As the middle class in China grows, it is creating a new car culture and enjoying the

freedom that personal vehicles provide. Owning a car in China takes on the status that owning a TV did in the US back in the '50s. Today there are car clubs and tuning shops springing up in the major cities of China.

There are challenges ahead for the automotive market in China. Issues like soaring pollution and gridlock on roadways will have to be solved. But the taste of freedom that owning a car provides has already begun to spread.

The final question is, how long will it take your company to be in position to capitalize on the market in China? If the crest of the wave does truly begin to break in 2013, do you have enough time to establish the all important relationships necessary to take advantage of the opportunity? Will your company have all the logistics figured out?

If you are going after the China market, just don't wait too long to prepare so you can take advantage of one of the biggest coming opportunities the industry has ever seen.

Don't think the China market is for your company? Keep in mind that the aging US population and the recent recession will make company growth hard to come by in the coming years. The recession has wiped out more than 10 years of industry growth in the US, and has impacted consumer spending patterns going forward. Companies that focus only on the US will be locked in share wars for the existing market.

Auto Industry Image Improving With American Youth

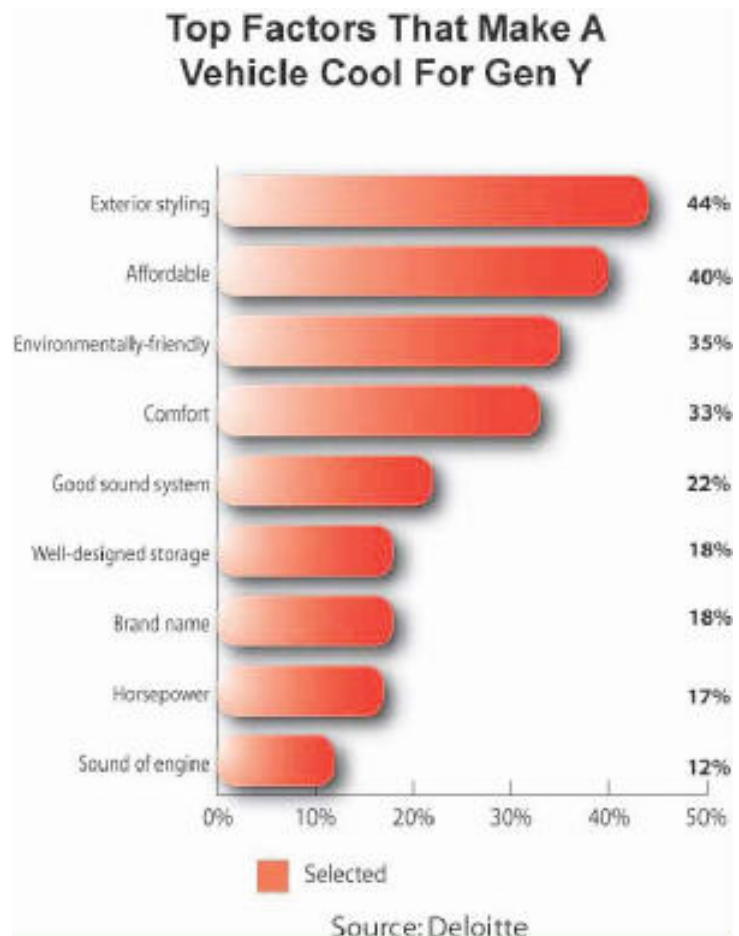
If the largest generation since the baby boomers has its way, Generation Y might just be the group to help jump start the automotive industry in the US. Interestingly, the number one factor cited as making a vehicle cool is exterior styling.

According to a new survey from Deloitte (in collaboration with The Eli Broad Graduate School of Management at Michigan State University) Gen Y consumers may have an increasingly positive view of everything from auto jobs to American-made vehicles.

As a follow-on to last year's Deloitte's survey, "Connecting with Gen Y: Making Cars Cool Again," this new analysis takes a deeper look at Generation Y's attitudes and perceptions of vehicles and the auto industry. The survey, "Gen Y: Making the Short List," offers unique insights into what may capture the attention and shape the opinions of this generation.

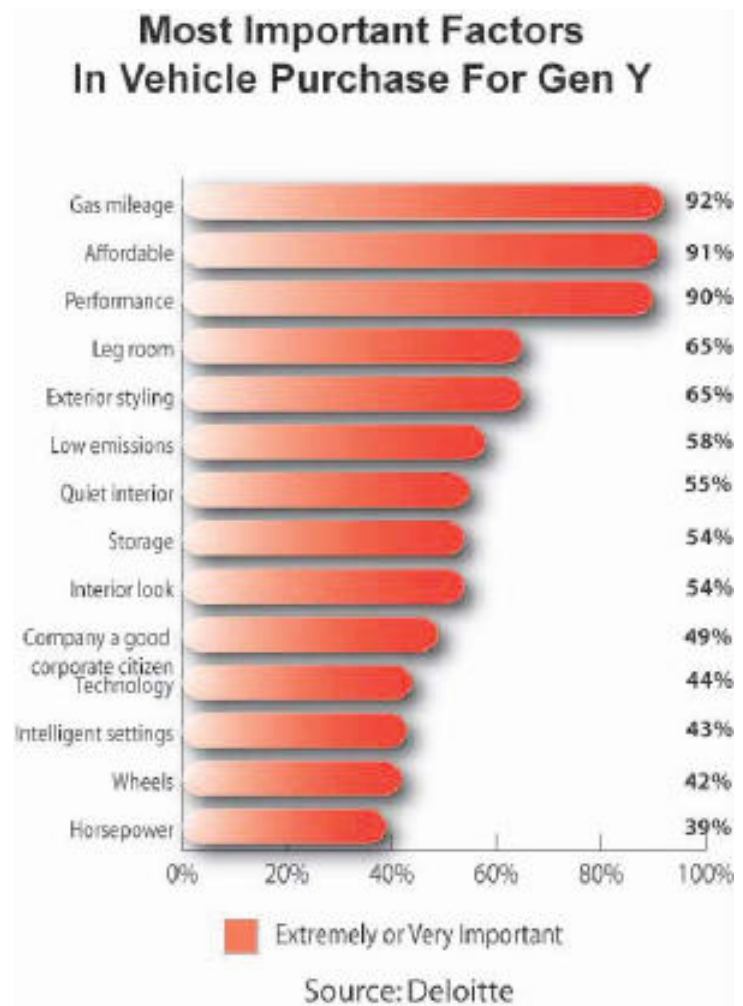
One of the most promising indicators that perceptions may be improving is the shift in Gen Y responses regarding jobs in the auto industry. In last year's Deloitte Gen Y survey, nearly 70 percent of respondents were not interested in working in the automotive industry. In this year's survey, only 50 percent of Gen Y respondents said the idea of working in the U.S. auto industry was not appealing, showing a significant change in perception year to year.

"A 20 point shift over a year may be indicative of a change in perception of the industry," said Michelle Collins, vice chairman and U.S. automotive sector leader, Deloitte. "Among the list of challenges facing companies in the current economic environment, recruiting and retaining the best workers is vital to supporting growth initiatives today and in the future."



Economic challenges sent shockwaves throughout the automotive industry in 2009 and the impact could be felt as consumer perceptions changed concurrently. Gas mileage and vehicle affordability emerged as the most important considerations for Gen Y respondents purchasing cars, as opposed to a year ago when data showed safety as the number one decision-making factor.

Manufacturers affected by economic challenges certainly felt the effects of belt-tightening across the country as federal bailouts and bankruptcies made headlines throughout 2009. The resounding impact of these challenges made a lasting impression on Gen Y respondents, too, with 44 percent preferring to purchase a vehicle from a brand that did not accept federal bailout funds. Similarly, only 36 percent reported they would consider buying a vehicle from a company that is, or has recently been in bankruptcy.



Gen Y consumers may also be taking the value proposition of used cars versus new cars a lot more seriously. According to the survey, approximately 63 percent of Gen Y respondents believe used cars are a greater value than new cars and they're more than three times as likely to purchase used cars over new. "Generation Y is typically a group that thinks 'newer is better,' but as the economy is slow to recover and jobs are hard to find, this generation may help reshape the car buying process," said Collins.

Another theme emerging from the survey results is that the Gen Y respondents are particularly loyal when it comes to automobiles -- loyal to brand and loyal to country. The survey showed that the "Made in the USA" label still carries a lot of weight. More than 50 percent of Gen Y respondents stated it's important that the vehicle be manufactured in an American factory regardless of the brand.

Additionally, nearly half (42 percent) of respondents reported they expect to be driving the same vehicle brand in five years, and that's up a little more than 15 percent from last year's survey in which only 27 percent indicated that they expected to be driving the same brand in five years.

Though the responses suggest the make of the vehicle Gen Y drives won't be changing, the model they drive will likely change drastically over the next five years. According to the survey, SUVs are making a comeback. As the economy slowly rebounds and the price of gas remains lower than 2008, the demand for SUVs is increasing. Nearly one in four (23 percent) respondents see themselves driving an SUV in five years, up from only 11 percent last year.

While bigger may be making a comeback, one thing is certain to the respondents: green is here to stay and they are willing to pay more for it. The majority of respondents (64 percent) stated they were willing to pay more for a vehicle that was either environmentally friendly or one that saves money on energy costs. Nearly three-quarters (73 percent) of respondents declared the environment as an extremely important factor when purchasing a vehicle, and almost half (49 percent) believe the type of vehicle they drive "makes a concrete difference in addressing global and local concerns about the environment."

Some interesting trends also emerged about Gen Y's likes and dislikes when it comes to vehicle shopping. Social media sites and blogs may be one of the most popular ways for Gen Y to communicate, but they may not help sway purchasing decisions when it comes to automobiles. According to the Deloitte survey, nearly 60 percent of Gen Y respondents reported they do not look for advice or information on blogs or social media forums before purchasing a vehicle.

Gen Y car buyers tend to turn to on-line search engines to find information on vehicles and they most trust auto manufacturer sites. When it comes to physically going into a dealer, Gen Y respondents are largely unsatisfied with the overall dealership experience. No-haggle is their preferred method of doing business. The survey showed that 85 percent of respondents would prefer to know the final selling price upfront and more than 60 percent stated they would prefer to skip pricing negotiations altogether with a salesperson. Additionally, the majority indicated they are anxious when a dealership salesperson approaches them and prefer to have the sales process occur over the internet without any face-to-face interaction.

"We worked closely with many Gen Y students over the course of this survey and have gained some valuable insights that we hope the automotive industry will hear," said Collins. "This consumer group accounts for 25 percent of the marketplace, so it's certainly important that we do all we can to make sure we take their preferences into account."

For a more in-depth look at the survey and other insights on Gen Y please go to www.deloitte.com/us/genyconnection.

About the Survey

The survey was developed and administered by Deloitte in cooperation with the Marketing Department at The Eli Broad Graduate School of Management at Michigan State University and included 1,100 participants age 18 to 30 (born between 1979 and 1991). Respondents were randomly drawn from a panel of individuals who agreed to participate in online surveys and the random sample was evenly dispersed across geographic regions.

Source: Deloitte

North American Car and Truck of the Year – Winners Signal Major Changes

Just as the New Year gets underway with heavy optimism and the automotive industry begins to make changes to embrace the new opportunities ahead the North American Car and Truck of the Year Awards have announced their newest winners. In 2010, Ford has captured both awards with their Fusion Hybrid sedan and Transit Connect van-like truck. This marks just the third time a single manufacturer has won both titles in the 17-year history of the award.

2010 North American Car of the Year nominees:

BMW 335d
Buick LaCrosse
Cadillac CTS Sport Wagon
Chevrolet Camaro
Ford Fusion
Ford Fusion Hybrid - Winner
Ford Taurus/Taurus SHO
Honda Insight
Kia Soul
Mazda3/MazdaSpeed3
Mercedes-Benz E-Class
Porsche Panamera
Subaru Legacy
Suzuki Kizashi
Toyota Prius
Volkswagen Golf/GTI/TDI

2010 North American Truck of the Year nominees:

Acura ZDX
Audi Q5
Cadillac SRX
Chevrolet Equinox
Ford Transit Connect - Winner
Honda Accord Crosstour
Land Rover LR4
Lincoln MKT
Subaru Outback
Volvo XC60

What is important about the story is not really the award, but what the results could mean for the changing landscape. Automotive awards are not uncommon and "Car/Truck of the Year" types are often given from many of the major publications. This award, however, is truly the product of the collective efforts of representatives from the mainstream media outlets. With contributors from *Car & Driver*, *USA Today*, *Automotive Engineering International*, *Road & Track*, *Detroit Free Press*, *Fortune* and many others the unbiased nature of the awards help establish a true barometer of things to come.

For 2010, the selections echo the shift in product design from the manufacturers that are direct responses to the high fuel prices and demands for reduced emissions of the past few years. While the current price of oil is not nearly as dramatic as it was during the fuel price crunch of the summer of 2008, the bitter sting has remained with consumers and is a top priority for future vehicle purchases.

Ford understands how this perception is reflected in both consumer and commercial applications. While the Focus Hybrid is certainly an exciting car, the more important news is the selection of the Transit Connect. What amounts to a European-spec delivery van the Transit Connect will have a broad appeal and a serious demand for customized configuration. As a business support vehicle or a weekend hauler for sporting goods the compact, yet space-maximizing size can deliver utility and fuel efficiency - ultimately saving its owners money and becoming a worthy value.

The opportunities for specialty equipment manufacturers are considerable. Trucks, Vans and SUVs are routinely outfitted with custom storage solutions and the Transit Connect will be no different. Companies looking for vehicle alternatives will find this new entry a valued welcome to the market. Serrota Competition Bicycles partnered with Ford to build a support vehicle and "fitting room" for cycling team and marketing efforts. The Transit Connect is the perfect size to accompany their riders on race days and at consumer events to display the company's products while being fuel efficient and inexpensive.



The same opportunities can be created with an approach designed towards athletes, outdoor adventure seekers, musicians, artists or other enthusiasts. Ford Vehicles Personalization customized this Transit Connect to illustrate the options available to consumers. Reception and feedback for the vehicle has been surprisingly positive at automotive shows and Ford CEO Allan Mulally told

reporters at the North American International Auto Show that it is "a chick magnet". That might be a stretch, but the appeal of a fuel efficient utilitarian vehicle should be a decent sales performer, even if a niche item.



Tech Products to Watch

Three-dimensional TV's, tablet computers and hand held projectors are coming to the consumer market very soon and should be on everyone's radar. Much like some of the other tech gadgets that have come in the past decade and have revolutionized how we communicate a handful of new products could alter how consumers behave.

During the world's largest consumer technology trade show, Consumer Electronics Show (CES), nearly 2,500 exhibitors from around world migrated to Las Vegas to display their latest gizmos, gadgets and gotta-have's of 2010. Most of the new releases are not directed squarely at the automotive market but could have influence there as they trickle down through other industries. Take Apple's iPhone as a prime example of technological migration from one market to another. The phone became extremely popular with general consumers and had the availability to transfer to other uses through their applications ("Apps").

3-D TVs

By far the biggest buzz came from the advances in three-dimensional television sets. In past years the technology was merely unimpressive, extremely expensive and inaccessible. Now that the biggest names are pushing for the concept to become mainstream it finally has the legs to become reality; Panasonic, Sony, LG and Samsung all had models on display. The biggest roadblocks will be the implementation and standardization of the technology as it rolls out around mid-2010 and the immediate concerns over accessories. As of now some of the screens require the user to wear 3-D enabled goggles. A few manufacturers are creating built in screens or layers to remove the necessity for the goggles, but consumers might stay clear if they will be required to wear bulky accessories. Nevertheless, as LED and OLED systems have become common in automotive applications this new feature might become an expected alternative in the specialty equipment industry if the adoption spreads to other consumer electronics like phones, digital cameras and computers.

Smartbooks and Tablets

Downsizing is not unique to just the automotive industry. One of the most discussed technology topics of 2009 was the upcoming surge of tablet computers and smartbooks – two different styles of portable computers. Now, those mock-ups and concepts are becoming tangible products that should start shipping to retailers in the first quarter of 2010.

Smartbooks are relatively hardware-light PCs that allow consumer the ability to access the internet and perform basic computing functions without the bulk and energy-consuming nature of full-sized laptops. Think of them as large smartphones with full QWERTY keyboards and an inexpensive price tag of roughly \$300.

Tablets are also like large cell phones but typically do not have a standard tactile keyboard. Instead, they have a large touch screen with digital keyboards, superior computing speed and graphic processors. Moreover, a Nvidia spokesperson, the chip manufacturer for most of the devices, claims the performance is 10 times greater than a typical smart phone. Tablets are extremely portable, light and have battery times of 10 hours or more; a great characteristic for business travelers looking to cut the cord and bulk of a standard laptop.

Boiling down to basics, both devices will ultimately perform the function of accessing the internet better than laptops and more intensely than smartphones, enabling users to communicate with others and access information more readily. More likely than not, the early adopters will be tech-savvy with more moderate followers to come shortly after. Down the road, however, the lower cost and improved availability of mobility could spread to a greater audience of people wanting or needing to stay connected while not wanting to rely solely on a miniscule phone.

Micro Projectors

The other quirky tools that seemed to grab the headlines were miniature projectors. Pocket-sized versions have been around for a few years, but now they are becoming even smaller while maintaining acceptable power and clarity. Digital cameras and smartphones are beginning to become targets of this old concept with a modern twist. Essentially, developers are looking for ways to make hand-held devices perform like their much larger counterparts. Instead of sharing a video, picture or business presentation on a small screen the image can be projected on a nearby wall for a small group to see without straining. The performance is not going to shake-up movie theaters or rival flat-screen televisions, but the option allows people to share content with others more freely.

The automotive hobby is continuing to accept rich media and portable devices can aid in the dispersal and consumption of these forms of entertainment.

Automotive News Digest: Hot Links to Popular Stories

Bugatti Pulled From Lake After 73 Years

<http://www.thesun.co.uk/sol/homepage/news/2800522/Bugatti-pulled-from-lake-after-73-years-to-be-sold-at-auction.html>

Detroit Auto Show Wrap-Up: New Vehicle Launches

<http://www.autoblog.com/2010/01/14/detroit-2010-wrap-up/>

V-6 Engines Begin Long Fade into History

<http://detnews.com/article/20100107/OPINION03/1070429/V-6-engines-begin-long-fade-into-history>

Guy Adds Boat Tail to Car: MPG Increases 15.1%

http://www.treehugger.com/files/2010/01/guy_adds_boat_tail_to_car_increases_mpg_by_151.php

Chainlink 4x4: Custom Off-Roader

http://www.autoblog.com/2010/01/05/video-articulate-this-chainlink-4x4-is-frighteningly-awesome/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed:+weblogsinc/autoblog+%28Autoblog%29

Concept Motorcycles: 20 Bad-Ass Bikes

<http://weburbanist.com/2009/12/30/concept-motorcycles-20-bad-ass-bikes-to-hope-for-in-2010/>