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Collapsing Russian Car Market Threatens to Sink Launch of New Sedan

By The Moscow Times

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Datsun's on-Do sedan, launched in Russia on Monday, arrives just as consumers are reining in their spending.

TOLYATTI, Russia — To the pounding beat of house music and a triumphant trip down memory lane, the launch of Datsun's on-Do family sedan at Russia's largest automaker on Monday was hailed as a sure success.

Manufactured by AvtoVAZ for Japan's Nissan, the on-Do, a 1970s icon, is aimed at the growing ranks of "up-and-coming" Russian families who want to own a foreign car but cannot afford upmarket models.

But the firms' painstaking market research left out one variable: President Vladimir Putin's decision to annex Ukraine's Black Sea region of Crimea, which has knocked an already weak economy and raised uncertainty among consumers sensitive to price.

And despite the confidence on show at the sprawling car plant in Tolyatti, named after an Italian communist leader, some executives said tumbling Russian car sales were troubling.

After plunging more than 17 percent in June compared with a year earlier, according to figures from a lobby group for Europe's top carmakers, car sales in Russia look set to post their worst year since the 2008 to 2009 global economic crisis.

It is a reversal for a market, that until June figured in Europe's top three and where many of the 143 million population see cars as a status symbol.

For Vitaly Pavlovsky, executive director of Russia's Rolf dealership network that sells only foreign brands, it means trying to find new ways of enticing consumers to commit to purchases and possibly offering discounts.

Pavlovsky, who runs Russia's biggest car dealer by revenue, said sales had been good so far this year, rising 14 percent in the first six months thanks to healthy demand for luxury brands. But in June they fell by 5 percent.

"We of course cannot swim against the market for ever," he said, forecasting that sales for foreign brands would fall by at least 10 to 12 percent if they followed last year's dynamic.

Like the executives at Datsun and AvtoVAZ, best known for producing the Lada, he did not predict this year's economic stagnation, with growth barely above zero and Western sanctions, and the threat of more, driving capital from the country.

Many Russian consumers have become increasingly worried about inflation, with state-funded pollster VTsIOM saying 62 percent of Russians see it as the most important problem today.

Central Bank officials suggest inflation could reach 6.5 percent by the end of the year, above the official forecast for 6 percent, after it touched 7.6 percent by mid July year-on-year. With prices rising, some Russians have reined in spending.

Squeezed Middle Class

Dealerships like Rolf would like to see a renewal of state support in providing credit to new customers, but for the on-Do, Datsun is hoping its emphasis on packages to ease each purchase will increase its popularity among people who are "on the move."

"We are talking about a young family, 35 to 40 years old. People who have owned cars in the past, mostly second hand cars, and who want to upgrade to a combination of an international — in this case Japanese DNA-styling — performance and comfort, within an affordable car made for Russia," said Vincent Cobee, head of Datsun and Nissan's corporate vice president.

Cobee denies that the Datsun on-Do is being launched at perhaps the worst moment, when those families are being squeezed by rising prices and slower income growth.

"The minute you target high growth markets you need to be ready for volatility," he said, adding that his four launch markets were India, Indonesia, South Africa and Russia — all

experiencing some kind of economic difficulties.

"First and foremost you do not launch cars for a one-year period. When you launch and develop a brand especially with cars, you do it for five, six, seven, eight years," he said, suggesting long-term growth was safe.

Cobee points to largely untapped markets outside Russia's two big cities, Moscow and St. Petersburg, and a large number of second-hand cars as proof that the market has more mileage.

According to Russian analytical agency Autostat, the market for second-hand cars grew 4.1 percent last year to 5,636 vehicles — the main competitor to low-cost cars. The on-Do starts at 329,000 rubles ($9,600).

It is a view largely shared by Russia's AvtoVAZ, which produces vehicles for Renault, Nissan and now Datsun as part of the Renault-Nissan joint venture which controls the Soviet-era plant.

It also produces the Lada, which the company is trying to modernize to cast off its Soviet boxy image. The original Soviet-era Lada drew its inspiration from a 1960s Fiat sedan.

AvtoVAZ, a pillar of the command economy in Soviet times, is driving development of Lada models. After AvtoVAZ reported a loss last year, its chief executive Bo Andersson says he wants a return to profit, to restore pride to the brand and get it back up to a 20 percent market share from just under 16 percent now.

"We can only do it by making new products," said Andersson, in the job for six months after working at Russian automaker GAZ. He spends much of his time traveling around Russia's regions to try to enhance the Lada's image to spur sales.

"For the last eight weeks, I have been visiting a city every weekend, working with local government, working with local dealers and working with local media and it helps create a better image of Lada and helps people to feel a little bit more proud of Lada."

No Patriotic Surge

It is a message that resounds in Russia after Putin took the country along a more patriotic path following the sanctions imposed on the country by the U.S. and the European Union over Moscow's involvement in the Ukraine crisis.

The asset freezes and visa bans on a limited number of Russian firms and officials struck at a time when the $2 trillion economy was already sliding toward recession.

On Monday, Prime Minister Dmitry Medvedev moved to limit the number of imported cars state officials could buy, but analysts say they had not seen any "patriotic surge" in sales.

"Those purely Russian brands, Lada and UAZ [a producer of mostly off-road vehicles], occupy less than 20 percent of the market, so the rest is imports at about 30 percent and 50 percent is the local construction of foreign brands," said Vladimir Bespalov, an analyst at VTB bank.

"So it is impossible to talk about everyone moving to Ladas or UAZ for the sake of patriotism."

Sales of Lada fell 19 percent in June, year-on-year, and 15 percent since the beginning of 2014 — but that is just a slight tumble compared with other brands such as Ford, whose sales dropped 53 percent year-on-year in June, and 39 percent in 2014, according to the Association of European Businesses.

Some luxury brands are doing well, with Mercedes, the erstwhile choice of Russia's political elite, seeing sales increase in June by 10 percent year-on-year, and 19 percent since the beginning of the year.

But the few bright spots cannot mask the fact that many dealerships stand empty — something one Russian businesswoman is taking advantage of.

"It is not a dealer's market anymore, it is a client's market, so dealers have to understand it and just do something differently," said Marina Glushkova, chief executive of AutoSpot, an online automotive service catering to Russia.

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