

The World's Truck Manufacturers 5th Edition

An operating and financial review

By Jonathan Storey

SAMPLE

management report

automotive world

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PREFACE

About this report

The primary objective of the report is to provide comprehensive and consistent information on the financial and operating performances of the world's major truck producers. This information is complemented by analysis and commentary, which highlight the pertinent aspects of the wealth of data included, and provide a guide to some of the pitfalls encountered when interpreting the data.

The backbone of the report is the appended database of financial statistics and performance ratios covering the world's major truck manufacturers and their subsidiaries from 1983 onwards. This comprehensive database is designed to present information in a clear and consistent format, to enable users to analyse and compare the operating performances of a wide range of automotive companies over a statistically significant period.

I hope you will find the report meets my aims and your expectations.

Jonathan Storey

CHAPTER 14: VOLVO TRUCKS & BUSES

OVERVIEW

Towards the end of the nineties the Volvo group began reducing the breadth of its portfolio of industrial holdings and increasing its depth, concentrating on the automotive and transport vehicle industries, having previously acquired interests in a number of unrelated industry sectors (see Business Structure). This rationalisation process was taken a stage further in early 1999 when the car division was sold and Volvo's focus was narrowed to the following commercial transport industries:

- trucks;
- buses;
- construction equipment;
- marine and industrial engines;
- aerospace equipment.

Volvo Trucks is now the group's largest division in terms of revenue and usually profit, though during 2000 the construction equipment division contributed the highest profit.

Volvo is predominantly a producer of heavy trucks, which account for more than 90% of its production. In 2000 the company was the world's third largest producer of heavy trucks, turning out 76,812 units from eighteen final assembly locations around the world. Volvo also produced 5,194 trucks below 16t.

The truck division had been investigating alliance opportunities for most of the nineties having had to abort a planned merger with Renault in 1993, following shareholders' objections. The search was given added impetus by the sale of the car division, which left Volvo looking an attractive bid target with its large cash pile representing around 34% of its market capitalisation during 1999. However, the added urgency to form alliances led Volvo to make an ill-considered and initially unwelcome bid for Scania in January 1999. In the following months it became an agreed bid but the deal was blocked by Europe's competition authority forcing Volvo to withdraw its bid in March 2000.

Volvo spent little time in seeking an alternative alliance and within two months of aborting the Scania bid, the proposed purchase of RVI from Renault was being announced. The deal provided for Volvo to acquire 100% of RVI's equity in exchange for Renault taking 15% of Volvo's shares. Renault was to buy a further 5% of Volvo's equity on the open market, taking its overall stake to 20%. At the time of the initial agreement Renault's 15% stake in Volvo was worth about Eur1.7bn.

The rationale for such a move was little changed from that which applied when Renault and Volvo tried to merge in 1993. That merger would have had Volvo taking the lead role in the truck sector and Renault in cars and the logic for combining forces in the truck sector remains at least as compelling today as it did then. In strategic terms it is probably a better deal for Volvo than a Scania takeover, unless product and market overlap.

The timing was not ideal as Volvo bought RVI at the top of the market, just as truck demand in North America was beginning to turn down. However, had Volvo delayed it could have lost the opportunity and itself been the object of a takeover bid. The price of about SKr14bn was reasonable at the time, considering that VW paid a similar amount for an 18.7% stake in Scania, which, at the operating level, has been about three times more profitable than RVI in the past two years.

The deal was approved by the European and US competition authorities in 2000 and became effective on January 2, 2001. It makes the Volvo truck group (now called 'Volvo Global Trucks') the second-largest producer of heavy trucks in the world and the combined group makes more heavy trucks in Europe than any other producer.

Having finally succeeded in bolstering its strategic weight in Europe and North America, Volvo's Asian strategy promptly began to unravel. In April 2001 it was forced to sell its stake in Mitsubishi Motors to DaimlerChrysler, in recognition of DC's increasing control over the Japanese firm.

Following the ending of its alliance with Mitsubishi Motors, Volvo is widely expected to develop a relationship with Nissan Diesel, partly due to Nissan Diesel's equity links with Renault (now a 20% stakeholder in Volvo) and partly because Nissan Diesel is seen as the only Japanese truckmaker open to takeover.

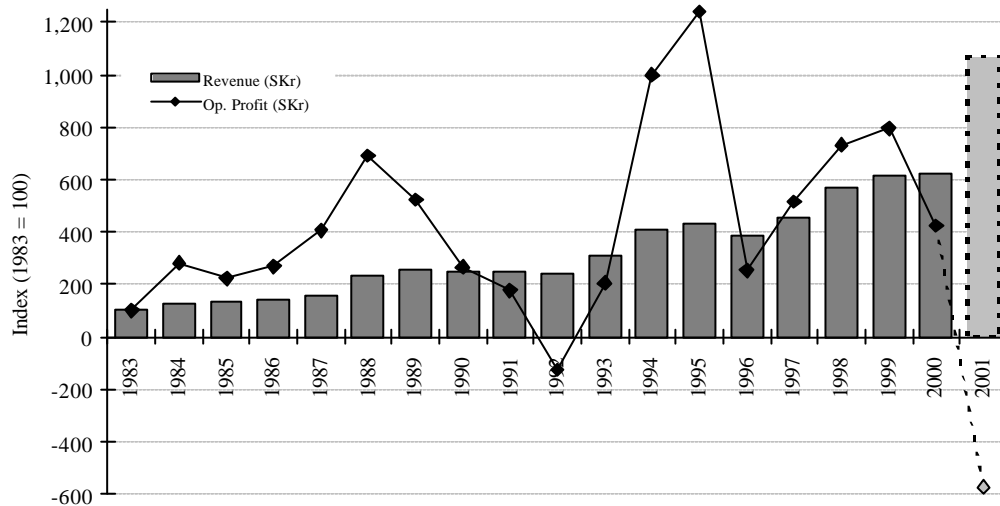
However, a deal with Nissan Diesel is not a foregone conclusion. We can think of three main arguments against such a development.

First, Nissan Diesel's levels of debt make it an unattractive price - though in theory this could be fully reflected in the company's price.

Second, Volvo may prefer to get on with integrating R-I and to develop its Asian sales by itself or with local partners outside Japan. After all, Volvo sold more trucks in non-Japan Asia last year than Nissan Diesel did.

Third, Volvo has a lousy record as a dealmaker. The aborted deals with Renault in 1993, Scania in 2000 and Mitsubishi Motors in 2001, must surely give the company some pause for thought before attempting another.

Figure 14.1: Volvo truck & bus revenue & operating profit trend



Source: Marketing Systems & Volvo

RECENT PERFORMANCE

2000 results

Volvo's truck division sold 81,830 units in 2000 (down 4% from 1999) and the bus division sold a further 11,015 units (16% more than in 1999). The truck division suffered a 56% fall in operating income to SKr1.4bn during 2000 as its revenue fell by 7% to SKr6.2bn. This was the truck division's lowest operating profit since 1991.

The sales decline was mainly due to a 31% fall to 3,610 units in Volvo's North American unit sales, partly offset by increased sales in all other regions:

- West Europe - up 6% at 42,054 units;
- East Europe - up 41% at 4,089 units;
- South America - up 16% at 4,534 units;
- Asia - up 104% at 5,556 units;
- Other - up 22% at 1,987 units.

Figure 14.2: Latest results - Volvo

Volvo	Currency / Unit	January - September			Year to December		
		2000	2001	Var. (%)	1999	2000	Var. (%)
Revenue	SKr(m)	87,155	131,982	51.4	125,019	130,070	4.0
<i>Of which:</i> - Global Trucks	SKr(m)	44,545	86,444	94.1	63,010	62,196	(1.3)
- Buses	SKr(m)	12,277	12,631	2.9	14,713	17,187	16.8
- Other & elim's	SKr(m)	30,333	32,907	8.5	47,296	50,687	7.2
Op. income (ex restructuring)	SKr(m)	4,998	2,413	(51.7)	6,726	6,154	(8.5)
<i>Of which:</i> - Trucks	SKr(m)	729	449	(38.4)	3,247	1,414	(56.5)
- Buses	SKr(m)	275	95	(65.4)	24	440	96.4
- Other	SKr(m)	3,994	257	(3.4)	3,555	4,300	32.1
Trucks operating margin	percent	8.6	3.5	(1.1) pts	9.2	2.3	(2.9) pts
Buses operating margin	percent	2.3	2.3	(4.6) pts	1.5	2.6	1.0 pts
Net income	SKr(m)	3,522	(980)	(127.8)	32,222	4,709	(85.4)
Net margin	percent	4.0	(0.7)	(4.8) pts	25.8	3.6	(22.2) pts
Unit sales	000s	142.1	120.4	(15.3)	94.6	92.8	(1.8)
<i>Of which:</i> - Volvo Trucks	000s	61.2	49.2	(19.7)	85.1	81.8	(3.8)
- RVI Trucks	000s	45.4	45.8	0.9	n/a	n/a	-
- Mack Trucks	000s	27.5	18.3	(33.6)	n/a	n/a	-
- Volvo Buses	000s	8.0	7.2	(10.9)	9.5	11.0	15.9

Source: Volvo

As well as the fall in unit sales, the truck division's profits were adversely affected by strong price competition, increased R&D expense and the weakness of the euro. However, restructuring actions in the early part of 2000 and its introduction of a new truck in North America (the VHD) helped to limit its profit decline in the final quarter of the year.

The bus division reported a near doubling of operating income to SKr440m from SKr224m in 1999, helped by higher sales and lower material costs.

2001 results

During the first nine months of 2001 restructuring charges of SKr2,725m caused Volvo group to fall to a net loss of SKr980m compared with a net profit of SKr3,522m in the year-ago period. Most divisions reported lower profits, the exceptions being the Marine and Aero businesses.

Analysis of the truck division's performance is complicated by several factors:

- the first-time inclusion of RVI in the results;
- restructuring charges of SKr1.32bn in 2001 and SKr1.4bn taken in Q1 and Q3 respectively;
- non-recurring gains from the sale of the CIM stake.

The division's revenue increased by 94% to SKr86.4bn, reflecting the first-time inclusion of RVI sales which (including Mack) were 12.1% down from year-ago levels at 64,072 units. Sales of Volvo-brand trucks dropped by 19.7% to 49,154 units.

At the operating level VGT earned an underlying profit of SKr449m, a 38% decrease from a year-ago. However, that figure excludes restructuring charges of SKr2.6bn. Among other things the charges cover the costs of closing one of Mack's North American plants (Winnsboro) and integrating Volvo and RVI's purchasing and engine development processes. Further restructuring costs of SKr1.4-1.5bn are expected to be charged by the end of 2003.

It seems fair enough to exclude this charge from the headline figures as Volvo has done, to give a like-for-like comparison with the year-ago result. However, the profit figure of SKr449m includes a non-recurring gain of SKr574m from the sale of Volvo's MMC shares in Q2. Excluding this figure shows Volvo to have made a recurring operating loss of SKr125m. The decline reflects:

- the 19.7% decline in sales of Volvo-brand trucks, in particular a 41% fall in Nafta sales;
- reduced margins;
- excess capacity.

The truck division has responded to the downturn by taking 83 down-days at Mack's plants and 30 at Volvo's North American plants. On a like-for-like basis the division's workforce was reduced by 4,520 employees (12% during the first nine months).

The bus division reported a nine-month operating loss of SKr293m compared with a year-ago profit of SKr278m. The deterioration principally reflects a 0.9% fall in unit sales to 7,122 vehicles, the decline in Europe being 2.7%.

BUSINESS STRUCTURE

In the wake of the abandoned merger with Renault, Mr Pehr Gyllenhammar who was at the head of Volvo Group for more than two decades, was forced out. His successor, Mr Sören Gyll, made fundamental changes to the strategy and structure of the company, a process continued by Mr Leif Johansson, formerly chief executive of Electrolux who replaced Mr. Gyll in 1997. Following the sale of the car division Volvo is now concentrating on the five core businesses listed earlier.

The background to the decision to dispose of the car division was its record of low profitability, consistently lower than the truck division, and the limited options for improvement for a relatively small player (400,000 units in 1998) in an industry dominated by companies making upwards of 2m units annually.

Volvo's final links with the car division were severed in June 2001 when it sold (subject to regulatory approval) its 50% stake in AB Volvofinans to Ford Credit for SKr871m. Volvofinans is primarily engaged in providing credit for passenger car buyers.

In May 2001 Volvo and Navistar announced plans for the Swedish firm to supply Navistar with 12-litre engines. Initially the engines will be produced at Volvo Powertrain's plant in Skövde, Sweden. However, Volvo eventually intends producing the engines in North America.

Over the past eighteen months, most of Volvo's corporate activity has mostly been focused on finding a partner for the truck division. A summary of the relationships with Mitsubishi Motors, Scania and RVI is provided below.

Figure 14.3: Volvo Group revenue by division

Division	1996	1997	1998	1999	2000
Car Group	52.1	47.1	47.5	0.0	0.0
Truck Group	25.1	23.1	26.8	50.4	47.8
Buses	5.3	5.5	6.5	11.8	13.2
Volvo Construction	8.0	8.8	8.9	15.1	15.4
Marine / industrial engines	2.4	2.4	2.3	4.6	5.1
Aero Group	2.6	4.0	3.9	8.0	8.2
Fin. Services	3.5	2.7	3.3	6.9	7.4
Other & Eliminations	0.4	0.3	0.9	3.2	2.8
Total	100.0	100.0	100.0	100.0	100.0

Source: Volvo

Volvo / MMC

Until recently Volvo held a 3.3% stake in MMC. In 1999 the firms announced a plan for MMC to split its truck and bus division into a separate company during 2001 and Volvo was to acquire up to 19.9% of the new company. The firms were developing a medium-heavy truck together and co-operating in various other ways.

As soon as DC formed an alliance with MMC we began to question whether the Volvo-MMC alliance had a viable future. Despite the insistence of all three companies that the alliance would continue we were of the opinion that it would be in neither DC nor Volvo's interests for this to happen. In last year's edition of this report we commented that "there is considerable room for doubt as to whether MMC's original plan for this alliance will come to fruition. As DC's bargaining hand has been strengthened it may try to acquire MMC's heavy truck business (a valuable business in its own right) to emerging Asian markets), as well as the car operations."

So it proved. In April 2001 DC paid Volvo SKr3.2bn for its 3.3% stake in MMC, taking DC's holding in the Japanese firm to 37.3%. The price included the rights to the medium truck programme being undertaken by Volvo and MMC.

Volvo / Scania

Volvo's truck division had been investigating alliance opportunities for a long time and this activity was given added impetus by the sale of the car division, which left Volvo looking an attractive bid target with its large cash pile representing around 34% of its market capitalisation during 1999. However, the added urgency to form alliances led Volvo to make an ill-considered and initially unwelcome bid for Scania in January 1999. In the following months, it became an agreed bid but in early 2000 the deal was blocked by Europe's competition authority, which forced Volvo to withdraw its bid in March 2000. The main reason for the bid being blocked was the dominance that a Volvo/Scania combine would have over Europe's Nordic markets.

At the time of writing Volvo retains 45.5% of Scania's share capital and (nominally) 30.6% of the voting rights. As a condition of the European Commission's approval of the RVI takeover, Volvo is not allowed to exercise any ownership influence and is obliged to sell the shares by the end of 2003. Volvo paid SKr24.35bn for its stake, which at current market prices is worth about SKr15.2bn. Clearly it will be hoping not to make a significant loss on the sale but with all potential buyers aware of the 2003 deadline and some potential purchasers probably put off by VW's stake in Scania, Volvo is not in a strong position.

Volvo / RVI

The takeover of RVI was described in the introductory comments.

Following the formation of Volvo Global Trucks (VGT) to co-ordinate and optimise the development of the three brands (Mack, RVI and Volvo) Tryggve Sthen. was appointed its president. The co-ordination of the three brands is being performed by a separate unit within VGT known as 3P (Purchasing, Product planning and Product development).

RVI was a good fit for Volvo in terms of geographical sales distribution and product range.

RVI offers exposure to markets where Volvo was relatively weak such as southern Europe where RVI typically takes a 20% share of the heavy truck market compared with Volvo's 13%. The only market where the two companies are relatively equally matched in terms of heavy truck market share is in North America. However, even here the overlap is actually relatively low as about half of Volvo-brand sales are to the long-haulage sector while Mack trucks are primarily used in heavy construction and regional distribution.

In terms of product, about 40% of RVI's output is light/medium trucks compared with just 10% of Volvo's and even where the brands nominally overlap in the heavy sector, they quite often compete in different niches as in North America.

As well as having to dispose of its Scania shares as a condition of the European Commission's approval for the RVI takeover, the US competition authority made its approval conditional upon Volvo divesting its Xpeditor low-cab-over-engine (LCOE) truck product line. Xpeditor markets the WX and WXLL range of vehicles, which are used for vocational applications, such as refuse collection. These products represent about 8% of Volvo's North American sales.

Another consequence of the takeover was that Volvo became one of the world's four largest producers of heavy diesel engines - defined by Volvo as being in excess of 8-litres. In recognition of this the company has formed a new business unit, Volvo Powertrain, which will supply the whole group with engines and other powertrain components. It will also look for opportunities outside the Volvo group - the previously mentioned deal to supply Navistar with engines is an early example of success in this regard.

Volvo is expecting the takeover to generate annual savings of SKr3.5bn after two years, with purchasing efficiencies accounting for about half that figure. Longer term, an incremental annual saving of SKr3bn is being suggested as the consequence of integration between the two companies' product ranges. To put these figures into context, Volvo Trucks incurred operating expenses of SKr61bn in 2000.

Figure 14.4: Volvo's share of European markets (%)

Sector & market	1997	1998	1999	2000	2005
3.5t-15.9t					
Austria	2.1	2.7	3.4	4.0	3.7
Belgium & Luxembourg	11.7	11.4	9.2	11.0	10.4
France	5.9	4.4	4.7	4.4	4.8
Germany	1.9	1.9	1.2	0.9	1.1
Italy	3.3	3.0	2.5	2.2	2.7
Netherlands	10.6	11.5	10.6	8.9	9.0
Portugal	7.4	5.8	6.1	4.9	4.7
Spain	2.5	2.8	2.0	2.9	3.1
UK	3.4	3.2	2.9	2.3	3.1
Nordic markets	11.9	11.2	9.2	8.6	9.9
Other	2.0	2.7	3.8	3.0	3.0
Total W. Europe	3.9	3.7	3.0	2.8	3.2
16t plus					
Austria	12.1	12.1	13.4	13.7	15.9
Belgium & Luxembourg	20.5	22.3	22.6	24.2	24.3
France	13.1	12.2	13.3	13.2	13.4
Germany	7.8	7.7	7.3	8.2	8.1
Italy	12.9	11.9	12.1	11.1	14.3
Netherlands	18.0	15.6	16.8	16.8	18.7
Portugal	28.3	24.9	23.3	20.4	20.7
Spain	13.6	12.5	12.1	12.6	12.8
UK	16.5	18.3	19.3	17.7	18.2
Nordic markets	36.2	35.9	37.9	36.6	35.8
Other	24.2	20.7	19.1	19.9	21.1
Total W. Europe	15.3	15.2	14.9	14.8	15.1

Source: Volvo

Figure 14.5: VGT's share of European markets (%)

Sector & market	1997	1998	1999	2000	2005
3.5t-15.9t					
Austria	3.6	3.4	4.8	7.2	8.3
Belgium & Luxembourg	18.2	16.4	14.2	17.6	17.2
France	48.6	47.9	43.1	42.2	42.4
Germany	2.6	2.4	1.8	2.3	2.2
Italy	12.3	12.6	9.1	10.1	12.4
Netherlands	14.3	15.1	13.3	14.6	14.3
Portugal	16.6	17.6	16.1	14.5	14.8
Spain	16.1	14.0	15.4	16.1	17.2
UK	6.0	5.3	4.5	7.4	8.0
Nordic markets	12.3	11.6	10.1	11.1	12.3
Other	7.0	6.6	6.6	5.5	6.1
Total W. Europe	11.0	11.0	9.9	10.1	10.7
16t plus					
Austria	12.8	15.5	16.8	19.2	18.6
Belgium & Luxembourg	28.7	30.4	30.9	32.0	32.0
France	51.7	52.3	49.5	48.6	48.5
Germany	9.4	9.6	9.4	10.1	10.2
Italy	22.1	21.8	21.0	20.3	22.6
Netherlands	20.5	18.1	19.3	19.4	21.5
Portugal	42.5	41.5	41.9	41.6	39.0
Spain	32.3	31.2	29.5	30.8	30.8
UK	21.4	24.0	25.9	24.3	24.3
Nordic markets	37.5	37.7	39.9	38.6	38.3
Other	27.3	23.5	21.8	22.8	24.1
Total W. Europe	26.6	27.0	26.7	26.9	26.6

Source: Volvo

Figure 14.6: Volvo truck & bus sales by market

	1996	1997	1998	1999	2000
N. America	17,600	22,010	32,040	37,940	27,479
Share of Volvo total	25%	28%	34%	40%	30%
Great Britain	7,280	5,870	7,110	6,880	7,014
Share of Volvo total	10%	8%	8%	7%	8%
Brazil	4,740	5,430	5,180	3,690	4,642
Share of Volvo total	7%	7%	6%	4%	5%
France	1,910	4,310	4,770	5,910	6,497
Share of Volvo total	7%	6%	6%	6%	7%
Germany	5,400	3,230	3,980	4,400	4,741
Share of Volvo total	5%	4%	4%	5%	5%
Other	33,140	36,860	39,395	35,696	42,472
Share of Volvo total	47%	47%	42%	38%	46%
Total	71,090	77,710	93,480	94,590	92,845

Source: Volvo

MARKETS

Volvo delivered 81,830 trucks in 2000, a 3.8% drop from the 1999 figure. Invoiced sales in western Europe (different to new registrations) grew by 6.1% to 42,050 units but in North America sales dropped by 31% to 23,610 units. Sales increased in all other regions, by 41% in eastern Europe to 4,090 units, by 16% in South America to 4,530 units and by 104% in Asia to 5,560 units.

In the West European light/medium sector Volvo's market share fell again in 2000, to 2.8%. The introduction of the FLC light truck, in autumn 1996 gave a temporary boost to Volvo's performance in this sector but competition from products such as the Atego and the Mitsubishi Canter (formerly sold through Volvo's European distribution network but now sold by DaimlerChrysler) has caused its share to slip. Volvo's representation in this sector is expected to rise during the next few years in response to the facelifting of the FL range during 2000.

Longer term it seems likely that Volvo will look to use an RVI product to increase its exposure to this sector, as the French firm typically enjoys a sector share about double that of Volvo. The two brands together were the fourth best-selling group in the sub-16t sector, during 2000, the same position that RVI occupied without Volvo.

As expected, in the heavy sector Volvo's share of the west European market fell slightly in 2000 to 14.8%. The decline was not particularly significant and we expect it to recover this year.

Looking at the combined market share of the Volvo and RVI brands it can be seen that the alliance is the European market leader in the heavy truck sector with a share in 2000 of 26.9%, which compares with DC's 19.6%.

Figure 14.7: Volvo's European product range

MODEL	DEBUT	1996		1997		1998		1999		2000		2001		2002		2003		2004		2005		REMARKS
		I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II			
FLC	1996	I				E				T												7.5-10.0T GVW
FL6	1985									F											N?	Was to be 2004 in JV with MMC
FS7	1991											T										
FL7/10/12	1985					N/E				T												Replacement (FM) is based on FH
FM	1998																F					
FH12/16	1993					F						F/E				E	N					SUCC. F SERIES

I: INTRODUCTION T: TERMINATION N: NEW MODEL F: FACELIFT E: NEW ENGINE

Source: Volvo

In the US Volvo branded trucks took a smaller share than Mack of the Class 8 market in 2000, at 10.7% (unchanged from 1999) compared with Mack's 13.3% (1999:13%). The two brands together would have been in second place in 2000.

During the first nine months of 2001 the number of Volvo-brand trucks sold dropped by 29.7% to 49,154 units. Sales were down by:

- 41% to 10,357 units in North America;
- 15.9% to 27,046 units in western Europe;
- 10.6% to 3,511 units in Asia.

These declines were partly offset by gains in eastern Europe, South America and elsewhere.

RVI's worldwide unit sales dropped by 12% to 64,011 units, reflecting a 34% fall in North America to 18,270 units and a 1% drop in Europe to 40,836 units, partly offset by gains in the rest of the world.

MODELS & PRODUCTION STRATEGY

Within Europe, Volvo currently produces trucks based upon three ranges of cabs, the FL (facelifted in April 2000) the FM and FH. The cabs themselves and all major components are produced at plants in Sweden, while final assembly (until 2000) was carried out at three locations in West Europe: Gent in Belgium, Göteborg in Sweden and Irvine in Great Britain. In 1998 it was decided to close the Irvine plant. Production was subsequently wound down and during 2000 assembly was transferred to Göteborg and Gent.

The facelifting of the FL saw the end of the FLC badge, used on Volvo's lightest truck (7.5-10t). The FL is available in weights from 7.5-18t but the Perkins 4-cylinder engine used in the FLC has been dropped in favour of a Volvo 6-cylinder unit.

The FM series, launched in 1998 shares 78% of its components with the FH series. The FM replaced the FL7, FL10 and FL12, a range introduced some fourteen years previously.

The loss of its alliance with MMC meant Volvo also lost the medium truck project the two firms were jointly pursuing. However, in RVI it has acquired a company with an already established presence in this sector of the market and recently updated versions of medium (Midlum) and light (Mascott) product ranges.

During 2001 Volvo has shown a new 16-litre engine which it plans to begin producing in 2003. Demand for the existing 16-litre unit has always been fairly low, but Volvo sees opportunities to install it in Mack and RVI models as well as perhaps selling it to outside firms.

In western Europe final assembly of the FL6/FS7 takes place at Gent in Belgium. The FL and FH Series are assembled at Göteborg in Sweden, Gent and Irvine in the UK (until 2000). The plant at Gent is the largest, producing 30,486 units in 2000 (1999:25,350); Göteborg produced 17,873 units (1999: 15,348); Irvine produced just 317 units in its final months (1999:2,090).

In North America Volvo is represented by Volvo Trucks North America (VTNA). Until 1997 the operation was known as Volvo-GM Heavy Truck Corporation, and was 87% owned by Volvo and 13% by General Motors. In 1997 Volvo took 100% control after the US company had run up substantial losses.

In autumn 2000 Volvo launched a new model in North America, the VHD, which is intended primarily for the construction sector but also for refuse collection and other demanding duties. The VHD cost SKr900m to develop and is based on the VN range.

Apart from western Europe and North America production occurs in the following countries (all production figures refer to 2000):

Eastern Europe

- Wroclaw, Poland - 1,110 units.

South America

- Curitiba, Brazil - 4,555 units;
- Lima, Peru - 243 units.

Asia / Middle East

- Teheran, Iran - 1,438 units;
- Brisbane, Australia - 771 units;
- Kuala Lumpur, Malaysia - 515 units;
- Bangalore, India - 347 units;
- Jeddah, Saudi Arabia - 188 units;
- Bangkok, Thailand - 146 units.

Africa

- Gaborone, Botswana - 40 units;
- Tunis, Tunisia - 210 units;
- Cairo, Egypt - 50 units;
- Casablanca, Morocco - 20 units.

SAMPLE

During 2000 Volvo announced that it will end truck production at its Polish plant which is located in Wroclaw. The plant will instead be used by Volvo's Construction Equipment division.

Also during 2000 Volvo began assembling heavy trucks in Bangkok, Thailand. Production for the year was on target at 146 units of the FM model and is planned to increase to 350 units in 2001. Investment in the plant is just \$1m.

In December 2000 Volvo announced it is to open an assembly plant just outside Moscow. The joint venture with the Russian company JSFC Sistema will build a new facility in Zelenograd. The first trucks should roll off the production line in the middle of 2001. The plant's capacity will initially be 200-300 units. Volvo claims to be the leading western brand in Russia's heavy truck market with over 6,000 vehicles registered. The company has twenty service centres in Russia.

In March 2001 Volvo a new co-operative agreement with Saipa Diesel in Iran was approved by Iran's Ministry of Industry. The joint venture aims to produce 1,500 FH12 and NH12 models a year. Since the early 1970s, Volvo Trucks has supplied more than 40,000 heavy trucks to Iran.

At the time of the RVI takeover Volvo said it planned to maintain separate brand names, and sales organisations, which sounds sensible enough; but also to maintain separate assembly plants tied to each brand, which doesn't.

It is to be hoped that the idea of separate plants for separate brands was offered as a sweetener to ensure the deal was accepted. It should not become a dogmatic policy which inhibits the new alliance from extracting all the scale economy benefits possible. Those readers familiar with the car industry may be aware that PSA Peugeot Citroën has relatively recently abandoned its policy of making Citroën and Peugeot models in different plants, recognising that this was an unnecessary constraint which of itself, did nothing to preserve different brand identities.

NOTES UPON FINANCIAL STATISTICS

As Volvo Trucks and Volvo Buses are only divisions of the Volvo Group, the disclosure of financial information is relatively limited. Nevertheless information such as revenue, operating income, R&D and capital spending is available for all years and this enables the following discussion to concentrate primarily upon the these divisions' performance and activities.

Data sheets are presented for Volvo Group and Volvo Trucks and Buses.

In the 1995 accounts units sold refers to invoiced units rather than retail sales as previously. Data back to 1991 has been altered to conform.

A new Annual Report Act became effective in Sweden on January 1, 1996 and has changed the presentation of Volvo's accounts from 1994. Most of the changes concern the cost of sales in the income statement the cost of sales calculation is changed, resulting in different (higher) gross profit figures. Operating profit and other profit figures are unchanged. In Volvo's 1996 accounts it published an income statement showing 1994, 1995 and 1996 data in conformity with the new standards and this data has been adopted in the appended data sheets.

Beginning in 1999 Volvo adopted new Swedish accounting standards on the treatment of tax. The tax and net profit data for 1997 and 1998 has been restated.