# Blue Book Market Report: Japanese Brands Losing Ground Due to Supply; Domestics, Hyundai Benefit Most

**Revenue, Volume at Stake as Japanese Replenish Inventory**

IRVINE, Calif., Oct. 4, 2011 /PRNewswire/ -- Kelley Blue Bookwww.kbb.com, the leading provider of new car and used car information, today reports that Japanese automotive brands are losing ground due to supply, while the domestics and Hyundai benefit, as covered in the company'sBlue Book Market Report for October 2011. The Japanese brands' revenue and volume are at stake as they replenish inventory.

September inventory figures for Japanese brands improved slightly over August, giving the first indication that the worst may be over. An increase of nearly 15,000 units provides a signal that in the coming months more inventory should become available. Additional product cannot arrive soon enough for dealers in the U.S. as they continue to give up share in their most important high-volume segments.

Overall, Japanese market share has declined 4 points since 2010, dropping from 38.6 percent in 2010 to 34.8 percent through August of this year. This 4 point drop equates to a loss of more than 300,000 potential sales that were diverted primarily to the domestic and Korean manufacturers. Although overall Japanese share is down 4 points overall, there are more pronounced declines in a handful of crucial segments.

Share in the ultra-competitive compact car, mid-size car and compact crossover segments is down significantly for the Japanese, due to their inability to meet high demand as well as improved offerings from the competition. Additional inventory is crucial in these segments, especially for highly anticipated redesigns such as the 2012 Toyota Camry, 2012 RAV4, 2012 Honda Civic and 2012 Honda CR-V. Among all Japanese brands, Toyota and Honda have taken the most significant hit in terms of overall market share. Toyota and Honda suffered most from the earthquake, shedding 2.5 points and 1.5 points, respectively, allowing Hyundai, Chrysler and GM to each benefit by 1 point or more. While a gain or loss of a few points may seem insignificant, when we examine the impact to volume and potentially lost revenue, we begin to see the importance of market share.

**Retail Sales and Share by Segment and Region**

| Segment/Region | 2011 YTD Sales Volume | Overall Share 2010 | Overall Share 2011 YTD | Change |
|---|---|---|---|---|
| ***Compact Car*** | | | | |
| Domestic | 363,251 | 24.9% | 29.2% | 4.3% |
| European | 123,006 | 9.7% | 9.9% | 0.2% |
| *Japanese* | *567,858* | *53.4%* | *45.6%* | *-7.8%* |
| Korean | 190,839 | 12.0% | 15.3% | 3.3% |
| ***Compact Crossover*** | | | | |
| Domestic | 422,136 | 41.5% | 45.3% | 3.8% |
| European | 27,773 | 1.8% | 3.0% | 1.2% |
| *Japanese* | *417,688* | *51.3%* | *44.8%* | *-6.5%* |
| Korean | 64,692 | 5.4% | 6.9% | 1.6% |

| | | | | |
|---|---|---|---|---|
| ***Mid-Size Car*** | | | | |
| Domestic | 535,005 | 34.4% | 37.2% | 2.8% |
| European | 5,820 | 0.9% | 0.4% | -0.5% |
| *Japanese* | *690,268* | *53.3%* | *48.0%* | *-5.3%* |
| Korean | 206,126 | 11.3% | 14.3% | 3.0% |

"The overall loss of share by Japanese manufacturers cannot be taken lightly. The earthquake and ensuing tsunami that devastated Japan on March 11 of this year will likely impact these manufacturers for years to come," said Alec Gutierrez, manager of vehicle valuation for Kelley Blue Book. "Already, the financial toll has been tremendous. In fact, we determined that Toyota and Honda have lost in excess of 350,000 potential sales combined so far this year by applying their 2010 market share by segment to 2011 sales volume actuals. This loss of potential sales has resulted from the inability of Honda and Toyota to produce and import the vehicles highly demanded by consumers today."

The volume lost by Toyota and Honda equates to an approximate revenue shortfall of $5 billion and $3.2 billion, respectively. The revenue approximation is calculated by multiplying invoice pricing less dealer holdback and regional marketing funds to the approximate sales volume lost due to the earthquake. While the Japanese have taken a substantial hit to both sales volume and gross revenue, GM, Chrysler and Hyundai have pulled ahead as the most significant beneficiaries to Honda and Toyota's missed opportunities.

GM has proven to be the primary beneficiary of Japan's lost market share by increasing share and subsequently sales by more than 130,000 units versus 2010. This equates to an approximate increase in gross revenue of nearly $3 billion through August 2011. Hyundai is not far behind, having picked up close to 120,000 sales and $2.5 billion in gross revenue.

"Incredibly, Hyundai has been able to increase share while combating inventory shortages of its own. While not severely impacted by the earthquake, Hyundai is in the enviable position of demand outstripping supply due to the highly acclaimed redesigns they have churned out during the past two years," said Gutierrez. "The all-new Elantra, Sonata, Optima, Sportage, Genesis and Tucson are but a few of the top-notch redesigns greatly benefitting the brand in today's competitive environment. Although domestic and Korean manufacturers have found success capturing market share, we can't rule out the Japanese just yet."

Japanese production should be hitting full steam right about now and the market is likely to see an influx of Japanese vehicles hitting our shores in the coming months. As new product arrives, Kelley Blue Book expects Toyota and Honda to increase cash incentives relative to their current levels, but generally not to exceed $1,000. In addition to cash incentives, there are many attractive lease deals available today in the marketplace that we expect to remain through the rest of the year.

"It won't be as simple as upping incentives, though. The competitive landscape is like nothing the Japanese have dealt with in recent memory," added Gutierrez. "Nearly all manufacturers are producing top-quality vehicles in every segment. Even the historically Japanese-dominated compact segment has seen excellent product arrive in the form of the well-received Chevrolet Cruze, Ford Focus and Hyundai Elantra. The Japanese may be down, but they are certainly not out. With several redesigns hitting our shores this year, it may only be a matter of time before the Japanese begin to recapture some of their lost share."

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