

Peugeot to slash model lineup by half

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By Mathieu Rosemain, Bloomberg

PSA Peugeot Citroen, Europe's second-largest carmaker, outlined plans to cut its model lineup by almost half and turn the Citroen unit's DS vehicles into a separate brand in a bid to restore the automotive division's profit.

The carmaking unit's operating margin will amount to 2% of sales by 2018, with the figure rising to 5% in the 2019-2023 period, chief executive officer Carlos Tavares said today in his strategic review of the Paris-based company.

Tavares, 55, became head of Peugeot at the end of March to guide a reorganization after cumulative net losses exceeded 7.5 billion euros (RM33.7 billion) in the past 2 1/2 years. Peugeot said today that the strategy hinges on reducing the number of models to 26 vehicles from 45, as well as a push into markets outside Europe, funded in part by bringing in Chinese partner Dongfeng Motor Corp. and the French state as investors alongside the Peugeot founding family.

"It seems to be the minimum requirement, but it's a start," Erich Hauser, a London-based automotive analyst at International Strategy & Investment Group, said by phone. "When you run a big ship like this, you can't expect to turn it around in a few years."

Dongfeng and France will each contribute about half the money for a three billion-euro capital increase planned by Peugeot in exchange for 14 percent stakes apiece, according to an agreement reached in February. The family's ownership will drop to 14% from the current 25.5%, ending their control of the 118-year-old carmaker.

Premium vehicles

Tavares joined Peugeot in January from French arch-rival Renault SA, where he was chief operating officer, to succeed Philippe Varin as CEO. The business plan puts Tavares's stamp on the carmaker's revival after Varin, 61, arranged to bring in the outside investors and started developing up-market models for the Peugeot brand and Citroen's premium DS vehicles.

“The group will continue to reposition the three brands, while clarifying their lineups,” Peugeot said today. Scaling back the range of models will allow the company to “improve market coverage and improve margins by targeting the most profitable segments.”

Peugeot was among the carmakers hardest hit as industrywide European auto sales contracted over six years a two-decade low, with the company’s market share narrowing to 10.9% in 2013 from 12.8% in 2007.

Job cuts

Varin responded by starting a cutback of 11,200 jobs in France, or 17% of its workforce in the country, shutting a plant near Paris last year and bringing out new models, such as the 2008 compact sport-utility vehicle, to revive demand.

The company said today that it’s reorganizing sales operations, and reiterating a target to triple Chinese deliveries in partnership with Dongfeng by 2020, along with restoring profit in Russian and Latin American businesses.

“I am committed to accelerating the group’s recovery by channeling all of our teams’ creative potential so that we can quickly get back on the road to profit,” Tavares said.

Varin set a target about four years ago for Peugeot to generate 50% of its deliveries outside Europe by 2015.

The proportion of Peugeot’s non-European sales increased last year to 42%, with China accounting for 20% of the total, from 38% in 2012.

“What’s really interesting is that Tavares is clearly taking a leaf out of Renault’s Drive the Change plan,” International Strategy’s Hauser said. “It’s very similar: in the very near term, it’s about fixing cash and in the longer run, it’s about returning to profitability.”

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