

THE PERSPECTIVE OF OUR BUS AND COMPONENT EXPORT TO THE MARKETS OF ADVANCED CAPITALIST AND DEVELOPING COUNTRIES

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Received May 26, 1979

Our machine industry has a great part in the development of our country and in establishing the external economic balance in the long run. The decision adopted by the Hungarian Socialist Workers' Party on the 20th of October 1977 — "The guiding principles of our long term external economic policy and the improvement of the structure of production" specify the intensification of the socialist integration and at the same time the increase of the rate of machine export to non-socialist countries. The only way to achieve this aim is to change the structure of production and to develop those branches of manufacture that supply profitable and exportable commodity stocks right now to a large extent. The road vehicle production is mentioned as such in the decision.

The machine industry and in particular the vehicle industry has played a very important role in our economic relations with the socialist countries, especially with the USSR, for a long time. Our machine export to the advanced capitalist countries and to the developing ones is still only 12% of our total export. Considering our bus export less than 10% goes to these countries.

To export more products of the road vehicle industry, especially more buses to these markets makes certain demands on the industry itself and on our foreign trade organizations. On the basis of the technical and commercial requirements of the conditions and the present state of the Hungarian bus industry the authors are making suggestions on providing the basis of a market programme concerning the advanced capitalist and the developing countries and of building up base markets.

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The technical and commercial requirements in the capitalist market

About 150 000 buses of different types, sizes etc. are produced a year in the seven capitalist countries¹, examined here. 28—44% of them are exported. Taking also socialist countries and the other important producing countries (Canada, Brasilia, Spain, etc.) into consideration twice this number results.

What is that characterizes the production and marketing in these countries especially in the advanced capitalist ones? Although the inadequacy of data, prevents completeness, some obvious conclusions can be drawn.

About 51% of the bus production of the leading capitalist countries and 43% of their export consist of types shorter than 6.5 m. So about the half of the production and trade is made up of minibuses, that are not, and because of the missing of car industry cannot be produced in Hungary.

The great part (about 70%) of the buses over 6.5 m have chassis, the construction of which is based on the production of lorry chassis. The industrial plants, the assembling and car body building factories established in the third world produce such constructions (Tata Mercedes, Argentine Mercedes, etc.) with the exception of Iran National Co.

A considerable part of the products sold by the factories in the advanced countries consists of chassis (Mercedes, BLMC, Fiat) and floor frames. Some factories do not make bodies at all or at least they do it to a lesser extent (e.g. Dodge, Volvo-Scania, Bedford, Ford). The floor frames get their coachwork in general in the advanced countries, while chassis are supplied by bodies in the, more or less, independent factories of the developing ones.

There are 25 countries in the world including those examined where buses are produced and in other 28 there were adapted setting up and body building. In all countries bus production is in close connection with lorry making and has developed on its basis. (No country has built its bus industry upon one-crop system — except Hungary !)

The bus production of the capitalist world rests upon a well developed international industry manufacturing components, accessories and equipment. These are the sources of a considerable export activity. One third of the motor-vehicle export of the capitalist countries and half of the import of the developing ones consist of different components. The requirements for glass

¹ Second part of the study by the authors "The development of the Hungarian bus industry and the ways of expanding the co-operation with the COMECON countries" published in *P. P. Transp.* Vol. 5. No. 2. in 1977.

² The same study mentioned above, p. 67—81.

³ *Statistic Almanach of Foreign Trade*, 1976. Budapest 1977. p. 33, 190.

⁴ Great Britain, France, Japan, West-Germany, Italy, Sweden, the USA.

plastics, paint, rubber, etc. are met by an excellent multinational putting-out industry providing great variety.

There is a contradiction between the almost unique demands on the part of the consumers and the requirements arising from the economical mass production. The factories try to solve the problem in many ways, like designing *bus families*, adopting the *theory of the construction set* and different *variable systems* or co-operating with some small producers nearly each model of which is a different type. Another possibility is to rely on the subsidiary companies in the third world for this purpose. For instance Mercedes offers long-distance buses (of floor frame type 0—303) provided with either its own body or with some other kinds made by Auwärter, Drögmöller, Vetter, which are produced in the mother factory. But it sells rear chassis with West-German, Turkish or Greek bodies and buses of floor frame types in Iran (0—302) or buses of chassis types made in India, Brasilia or Argentina as well. Moreover Mercedes buses are offered in different lengths, workmanships with the greatest variety of the main elements. In fact the corporation can meet every demand in construction, size, form and price alike.

Among others, the demand for *preserving competitiveness* and increasing variety gives an answer to the question, why the big corporations prefer to establish subsidiary companies in the developing countries. The efforts of these countries on their industrialization, financial, customs and import arrangements assert this tendency, too.

For this reason, setting up a subsidiary company or selling licences or know-hows is often more favourable, perhaps the only way for business. At the same time the production of chassis, floor frames and the main components of buses, CKD⁵ and SKD⁶ will be needed still for a long time. Otherwise, the prices of licences are rather high.

There are some examples illustrating new agreements made in this field: MAN have done such business in India and Algeria; Mercedes on the Canaries and in Australia; Chrysler in Switzerland and BLMC in Iran.

By the way, Toyota can be mentioned to demonstrate the volume of CKD production. It started this business in 1960 and since then has produced one million CKD constructions. Although the data contain all classes of vehicles, they may be regarded as characteristic especially considering that this quantity gives 20% of the export.

Bus production gives a rather small part of the whole motor industry of the leading capitalist countries (about 2.5—4% of the total production). *That is why the biggest corporations have based their market system* (marketing, service system — repairs under guarantee, etc.) *on the marketing of the considerable car and lorry production, apart from the sale of buses.* So they could extend

⁵ Completely knocked down = CKD.

⁶ Semi knocked down = SKD.

their market system practically to all over the world. It results that they *rely on this system when selling buses* and only a little extension is necessary in the case of a concrete business.

The market system includes the marketing section on the one hand and the service system (service stations, repairs under guarantee, the supply of components, etc.) on the other hand, it forms one well organized unit.

The western concerns show considerable adaptability in this field and set up organizations which suit the requirements of the market situation. In some cases a special firm is established to manage the exportation but it belongs to the parent company (e.g. General Motors International or BLMC — British Leyland International). Another version is when marketing is governed by one department of the central organization of the trust (e.g. Mercedes). And many smaller firms gather round a commercial firm, in particular those which produce components.

Subsidiary companies are established in the advanced capitalist countries as well (e.g. Ford, GM — in Belgium; Chrysler, Leyland — in Denmark; Kässborher — in France, etc.). These companies handle all the market activity, that is: market research, public relations, transactions, management, service-work, repairs under guarantee, the supply of components and the control of the repairing system as well. If manufacturing and assembling factories are working “in their area”, established by the parent company they manage also these factories.

All the concerns use a far-reaching system of agents, commission-agents, retailers and contract workshops with their work. They have some features in common:

- a) The central supervision is dominant in every field,
- b) The agents (commission-agents, retailers) have exclusive rights in certain cases,
- c) The service (and repairing) system, the repairs under guarantee, the supply of components, etc. form an integer part of the business. Moreover they take a prominent part in the evolving of goodwill and cannot be separated from it. The forms of organization of these services are subordinated to business practice in different ways, generally affected by financial sanctions.
- d) *Production is subordinated to marketing in all forms of organization in the cases of the capitalist concerns.* So, the different markets and the central trade-marketing departments have a fundamental effect on the planning-developing process. On the other hand, in case of a failure, the responsibility falls back on the trade-marketing department (let us refer to the events that happened at Volkswagen some years ago).

Not the idea of an abstract technical improvement gives the reason why the western companies develop their products. The essential market

demands force them to preserve (and increase) the good and permanent quality of their products, to modernize the existing types continuously, to change them every 8—10 years and to use the latest results of technics, to apply the aggregates whose capacity is getting larger constantly. Without these efforts the products can be sold only at a lower price if any.

Another question within the range of marketing is the standard of the supply of components and the service-system. It is relevant to this that those vehicles are expected to be sold that need as little service as possible. It is also a fundamental demand that the vehicle repairs are done in a short time to decrease the inevitable standstills.

Mainly the advanced countries *pay great attention to the problem of safety and the protection of the environment and examine how to rise the passenger comfort*, but lately the developing countries have followed this way, too.

The other important standpoint is the form, which should be attractive and meet the demand raised by the taste of time and even reflect the peculiarities of the manufacturing company, especially in the market of the advanced countries.

At last, all these requirements should be satisfied in order to sell the products at a price suitable for the market situation.

The actual technical-commercial problems of the Hungarian bus industry considering the changing requirements of the market

1. *There are many factors with a negative effect on the Hungarian marketing activity, which result from the recession of the capitalist world in 1974—75 and are still important elements of the present economic state.*

Almost all the countries try to run up the export in order to counteract the constant passive balance of payment even today, when the economic atmosphere, in spite of its changeability, is getting better, of course it makes the competition keener, that may be observed in the third world as well. The western governments pursue a desinflationary policy to counterbalance the economy and reduce the inflation, resulting in the limitation of the investing activity and has a multiplying effect. Besides the struggle against inflation, favouritism concerning the foreign trade and currency restrictions is used to overcome the difficulties. Their negative effects on a foreign country and at last on the world market are evident. Under such conditions it is rather difficult to work out a competitive price system and terms of payments and the new circumstances demand more careful work in the markets.

2. *The purchases and the efforts to increase the bus production are rather rhapsodic in the developing countries, too.* And we have not spoken about their unacquaintance with planning, the lack of highways and infrastructure or the

obsolescence of the existing ones, the lack of experts and foreign currencies and the low level of the service system.

3. *Even political reasons hamper the chances of our export to the non-socialist world.* A certain distrust can be felt against our political system in some countries even today, and it may result in deliberate discrimination. We are regarded as competitors and come up against co-ordinated actions, especially in the case of depression. Last but not least, the present capacity of the Hungarian industry and foreign trade is not known well enough, because of the insufficiency of our advertising work, or it is exposed to criticism by the counterpropaganda about our economy. Unfortunately our inconsistent market activity and anti-good will work in the earlier years have had a great part for this situation as well.

4. *Our sales volume in the non-socialist market up to now. The development of our bus export (1971=100)*

	%							
	1971	1972	1973	1974	1975	1976	1977	1978*
Europe	100	106	118	268	275	172	162	96
Asia	100	100	50	69	250	350	283	315
Africa	100	141	38	70	70	17	79	7
America	—	—	—	100	980	49	—	—
Sum total	100	118	53	103	280	194	182	158

* = preliminary data

Our export to the countries not using rouble for transactions (1977)

in parcels			
Country	Parcel	Country	Parcel
West-Germany	58	Ethiopia	2
Sweden	364	Malgas	100
People's Rep. of China	43	Tunisia	45
Kuwait	140	Laos	3

During the 8 years examined here we sold more than 5000 buses to the countries not using rouble as money of account. The sales contracted in Austria, France, West-Germany, Switzerland, Sweden and in Kuwait were aimed at satisfying special requirements. The sales in Iraq have consisted of bodies since 1975. So the rate of the standardized buses is about 56% of the total export.

Source: Statistic Almanach of Foreign Trade 1976. p. 190. 1977. p. 201. The data of 1978 concern the stock of orders made by MOCÚRT in January.

As it can be laid down on the basis of a more detailed analysis, we had a concern in 17 capitalist markets with our bus export. Regarding the average of several years some of them seem to be rather reliable, e.g.: West-Germany, Venezuela, Sweden, Iraq, Austria and Egypt. China, Laos, Ethiopia, South-Yemen, Costa Rica, Malgas and Kuwait (where trailers are assembled) were discovered as new markets. We made a contract only once in France, Switzerland, Libya, Tunisia and Peru.

Summarizing the experiences of the last 8 years the most essential thing we have to emphasize is the lack of base markets. The main reasons of this phenomenon are: the narrow range of the products (the lack of micro buses), the level of the technical services being not always satisfactory and our market organization which is not worked up sufficiently.

Although IKARUSZ 200 has existed since 1972 it has been produced in a narrow range (buses longer than 11 m only). In the last two years there was not enough time to introduce the lately developed minibuses, e.g. IFA, FORD, SAVIEM, MAN, AVIA). Moreover the structural range of our buses does not suit the various requirements of the market. (For instance we force the chassisless structure because of the technological limitations of the firm even there — e.g. in the developing countries — where constructions with chassis should be sold.)

It should be mentioned here that 68—72% of the total production consisted of constructions with chassis and only 28—32% of chassisless structures in Great Britain, France, West-Germany, Italy, Sweden, Japan, the USA, the Netherlands, Belgium, Spain and Austria in 1976. The developing countries all produce constructions with chassis, except Iran.

The requirements for the modern technical services are not known or have not been adapted sufficiently in the Hungarian industry and foreign trade and it explains its low level. The requirements mentioned above refer to a service (and repair) system coping with every demand of customers on different levels. On the other hand, a continuous supply of replacements (in retail and wholesale trade) and professional advices (and control) should be ensured. Another problem is that sometimes our technical documentations do not fit the level of the customer.

Finally our possibilities of sale in the western markets are restricted by the unsuitable level of the industry manufacturing parts and components as well. The idea of the road vehicle development program that some big companies should “pull” the whole industry has not been and could not have been realized in spite of some positive results. The need for working out an organic system of marketing activity refers to the necessity of co-ordination and points to the importance of the complex development.

Some suggestions on establishing the market program concerning the advanced capitalist and the developing countries

First of all we have to refer to *our base markets, namely the socialist markets*. In 1977 91.6% of the total sales volume fell to them (considering the foreign currency income). The export to capitalist and developing countries amounted to 8.4%.

Considering these facts and the tendency of the development there cannot be expected more than to double the rate of our export to the capitalist world.

In spite of it, the question how to build up base markets in the western (and developing) countries is still an important one. To solve the problem some factors should be known, such as:

1. The production of buses shows a cyclic character determined by:
 - the trend of the national trade cycle (total output, total consumption, the financial statement, the balance of trade, the employment and the financial position);
 - the demographic situation;
 - the number of buses and the structure of the rolling stock;
 - the order of the local production and assembly.
2. The potential customers should be classed as:
 - advanced capitalist countries,
 - medium-developed capitalist countries,
 - developing countries,
 - above \$1500 income yearly per capita,
 - below \$1500 income yearly per capita. (Of course this liminal value may change.)
3. a) In the advanced countries the possibilities for base markets rest upon the cooperation in respect to:
 - bodies (buses),
 - parts (other products of motor industry, e.g. cars, lorries, etc.)
- b) In the case of the medium developed capitalist countries the same method is to be followed. Perhaps even the chance for assembling is important here.
- c) In the developing countries where the income per capita is above \$1500 we seem to have little chance, except the case if we do business in cooperation with a company of a (highly or "medium developed") capitalist country (C.p. 3.(a—b)). We have more favourable possibilities in the other group of the developing countries where the income per capita is under \$1500, although the international competition is keen even here. So our products can be sold in less than medium developed countries.

4. After examining where the wholly Hungarian-made buses can be exported (C.p. 3.(c.) still we should deal with some problems about it. One of them is how to fix the prices of the export or import goods. It is not easy, partly because the ex-colonizing countries offer prices higher than the world market ones are for the goods of the developing countries — that is what we cannot do —, in order to manipulate them politically.

Another problem is that the common interests of the local government and the big corporations are rather strong in the market and operating system built by the bigger companies of the ex-colonizing countries. It is not necessary to detail the effects of this fact on marketing.

These difficulties point to the conclusion that *we must look for alternative base markets only with regard to the whole commodity spectrum of the motor industry.*

Let us emphasize here that factories and foreign trade organizations must not be convicted for faults other than theirs not even if these faults have considerable effects on the level of their products and services.

The narrow product-spectrum of the supplementary industry and in general the inflexible economic policy of it connected with its products belong to the most important impediments of our active market policy. First of all this bottle-neck should be changed and this field should become an efficient background of the Hungarian motor-industry, even producing competitive products by itself. In this way we can stay in the market continuously, so that by organizing the supply of units and components on a high level during the fluctuation of the investment cycles we may build up and keep our good-will. This may be the basis of building up base markets serving as reference for the further possible sales as well.

The basis of component and unit production of the Hungarian motor industry should be organized by establishing new factories (workshops, etc.) and stimulating the old ones. So in our opinion, the motor industry should be diversified and we must pay great attention to the improvement of the background industries as continuing the investments provided by the programme for the development of road vehicles.

Of course it raises the question of establishing the co-ordinating organization of motor industry. Its work would be to solve the problems emerging in different fields together or to get the necessary standpoints for solving them and to work out proper alternatives for decisions (taking care that the co-ordinating organization should not restrain but promote to make the product spectrum more favourable and to increase the flexibility of the management of the firm).

As it has been mentioned before, certain calculations have to be done concerning economic efficiency and from the point of view of the company

profitability in order to work out the long range bus export programme till 1990. The decisions on expanding the bus production, diversifying the export with regard to the markets and fixing in what proportion the possible kinds of buses are to be developed in technological (buses of chassis and of chassis-less types) and in functional (town buses with low floor, coaches with elevated constructions, special bodies, etc.) respect, are based on these calculations.

Laying down the direction of the export and in close connection with it the range of goods depends essentially on the requirements of the base markets, especially that of the socialist ones with a main regard to the realization of the common Hungarian-Soviet development.

The products remaining after the requirements of the socialist countries have been satisfied may be competitive, if the technical services are developed to a proper degree and the background industry can meet the requirements for development fixed by IKARUSZ. In connection with this it is an important work to analyze the nomenclature of the main and part components, considering the inland development and the possibilities of manufacture, import (socialist and capitalist) and co-operation (socialist and capitalist).

Of course the nomenclature worked out in this way reacts essentially upon the development of products and manufacture and changed by these, upon market and commercial work. It is necessary to be fully aware that *a bus* (as a representative product of the Hungarian motor industry) *is a multiple unit which may be developed mainly by its mechanical possibilities!*

Summary

The article examines the long-range possibilities of the Hungarian bus export to the non-socialist countries. It summarizes the technical and commercial requirements in the capitalist countries and, with regard of them, sketches the action that are necessary for increasing the export to the capitalist countries considerably.

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