STRATEGIC MANAGEMENT IN THE AILING AUTOMOBILE INDUSTRY

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**Introduction**

The automotive industry is one of the oldest, biggest and most extended industries that ensures directly or indirectly the living of millions of people. The prosperity or recession of car manufacturing influences nearly all countries in the world. Through the automotive sector’s hundred years long history we can observe the changes and trends of the world economy.

The current global crisis is particularly hard hit for the car industry, as it is reinforced by gradually growing oil prices and the latent overcapacity since many years. Currently the global capacity is 94 million cars per year, whereas about 60 million is the world demand. As a final blow the credit crunch has frozen the sales for a long time. The governments are facing the question if they should help their national carmakers with bailouts or it is senseless at that degree of globalization.

The consolidation of the car sector was continually noticeable in the past two decades, but it is still not finalized. According to predictions only eight independent global car giants will remain in 2010, and they will divide and dominate the industry in peaceful cooperation.

In my thesis I try to find out what chances do each player have for survival and what behaviour can make an automobile manufacturer win in the current situation.
1. Industry analysis with Porter’s five competitive forces model

A competitive strategy should base on the understanding of industry structures and the way they change. Porter’s five forces analysis is a framework for the industry analysis and business strategy development developed by Michael E. Porter, professor of Harvard Business School. He has identified five competitive forces that shape every industry and every market. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry.

I am going to analyse the automobile industry through the five forces model:

1.1 Bargaining power of suppliers

To be able to focus more on car-related services and to cope with the huge costs associated with an ever growing number of new modules and systems, automobile manufacturers are becoming less involved in manufacturing and assembly, passing the responsibility of developing, manufacturing, and assembling important sections of the car on to their suppliers.

As a result of fierce competition, automakers are now planning operations on a global scale, with models being launched at the same time in different locations with similar standard. So they expect the suppliers to be present in the new regions where they are located, often near their plants.

There is a clear strategic goal of OEM (original equipment manufacturer namely the industry brand name) toward working with a smaller number of large suppliers. That requires obviously a strong cooperation and intensive communication between the parties.

The growing importance of suppliers in the automotive industry is affecting their structure. Traditionally, the industry supply chain was organized in tiers. OEMs would design and assemble the car. First tiers would manufacture and supply components directly to the automaker (e.g., the fuel pump). Second tiers would produce some of the simpler individual parts that would be included in a component manufactured by a first tier (e.g., the housing of the fuel pump), and third and fourth tiers would mostly supply raw materials. This simple configuration no longer fits the actual structure of
the industry. **The new direct suppliers are becoming large global firms** (like Bosch or ZF), which are either specialized in complex systems, or integrators of several simpler subsystems. They are expected to have a substantial responsibility in the design and engineering of these systems and to coordinate the supply chain necessary for their manufacturing and assembly. *(Francisco Veloso, Rajiv Kumar, 2002)*

All in all we can say that the bargaining power of suppliers in the automobile industry is large through **high technical dependence**, which makes the sector less attractive.

### 1.2 Bargaining power of customers

Generally we can say that the **automobile end-customers have no bargaining power** as in most of the cases they are individuals who purchase the cars directly from the automobile manufacturers through their franchised distribution system. Only the biggest leasing companies or car-rental enterprises can probably gain discount.

Despite that the car manufacturers have to be attentive to the customers as today’s automotive consumers are increasingly well-informed and have an unprecedented level of choice in the marketplace. **Customer loyalty is no longer a given** and in these times automotive companies have to work harder than ever to earn and retain it. To respond to high customer expectations, companies have to deliver more effective, efficient, and profitable marketing, sales, and customer service.

The question of **price sensitivity** is increasing in the crisis. Customers are less willing to buy new cars, they prefer used vehicles. The biggest manufacturers have already reacted on the changes. For instance BMW and Mercedes-Benz are buying back the pre-owned cars which are off-lease. The new performance aims to reduce the number of off-lease cars going to auction and keep residuals up.

Every car manufacturer tries to encourage for purchasing through different tools. But most of them sold cars over the real purchasing power. People could buy automobiles on **zero deposit loan** and instalments could be extended to 120-150 months. These conditions are dangerous, and made the economy instable.
1.3 Threat of new entrants

It is extremely difficult to enter such a **concentrated and expensive market** like the car industry. There are more barriers requiring huge investments that make the market nearly unreachable.

First of all **brand image is a key factor** in the industry, inasmuch as the name sells the car. Most of the current existing manufacturers have a history of minimum 50 years. The first Mercedes model was produced in 1900 by Daimler-Motoren-Gesellschaft (later the company merged with its main rival Benz). Car designers work hard to consistently create refreshing designs that are new -some of them retain the classic elements-, luxurious and stylish that consumers expect.

To build and maintain recognized image it is crucial to **invest a mint of money in research and development**. Besides the technical and design improvement they have to put a stress on up-to-date issues such as resource and energy conversation, environmental preservation and enhancement of comfort and safety.

The **foundation of production facilities is also very cost and time-intensive**. Although in the present crisis it can occur that some big automotive manufacturers will go bankrupt, and the remaining players can use this opportunity to acquire the vacant factories.

Another problematic issue of new entrance is the **configuration of retail distribution network**. All major car manufacturers have built up their own franchised retail distribution channel. It same to be the most effective way of selling cars as franchisees get all the needed information about the products, they offer parts, service and warranty repairs, so customers trust them. It would be very difficult for a new entrant to recruit franchisees, as who wants to sell a no-name car?

Substantiating the above arguments we can outline that the Korean brand Daewoo founded in 1967 was one of the newest brands, but could not survive the cutthroat competition. It was dismantled by the Korean government in 1999. The Indian Tata Motors entered the passenger vehicle market in 1998 and could fight its way up through aggressive acquisitions of foreign brands, but it still did not penetrate effectively the most important markets like Europe or the US.
1.4 Threat of substitute products

As possible substitute products of automobiles we could mention the public transport vehicles like trains, busses, airplanes. But they have big disadvantages compared to a car, namely that they do not provide door-to-door transport and have fixed routes and timetables. The motorbike and bicycle are also not relevant substitutes, as they do not insure the comfort of a car.

The rise in oil prices plays a major role in the automotive industry. Oil provides 97 percent of the transportation fuels and it is used also in tire production. But despite several oil price jumps in the past 100 years the demand for passenger car have been sharply increased. This is partly due to the significant improvement in mileage of cars and on the other hand people are used to the mobility offered by automobiles, and they will not give it up because of some percent increase in oil price.

1.5 Rivalry among competing firms in the industry

Rivalry indicates both the number of players and the level of competition among firms in an industry.

Highly competitive industries generally earn low returns because the cost of competition is high. The auto industry is considered to be an oligopoly, which helps to minimize the effects of price-based competition. The automakers have tried to avoid price-based competition, but more recently the competition has intensified - rebates, preferred financing and long-term warranties have helped to lure in customers, but they also put pressure on the profit margins for vehicle sales.

Automotive manufacturing is one of the most global industries in the world. But there is this interesting fact that the 50 biggest automotive companies in 2005 headquartered in 8 countries, and the biggest ones were from 3 countries: USA, Germany and Japan. This phenomenon supports the diamond theory of Porter that defines national competitive advantage. It points to the need for companies and governments to encourage and support subordinate industries to enhance global competitiveness.
In 2007, a total of 71.9 million new automobiles were sold worldwide: 22.9 million in Europe, 21.4 million in Asia-Pacific, 19.4 million in USA and Canada, 4.4 million in Latin-America, 2.4 million in the Middle East and 1.4 million in Africa. The markets in North America and Japan were stagnant, while those in South America and Asia grew strongly. Of the major markets, Russia, Brazil, India and China saw the most rapid growth. After all the industry had the potential to build far more cars already that times. Industry overcapacity has cut profits, driven consolidation and increased the tension between automakers and suppliers.

The car producers are also forced upon diversification in terms of variety of cars. It is not enough to concentrate on one type of cars. They have to show off a wide range of models including vans, mini-vans, SUVs, wagons, smart cars and so on.

In conclusion we can say that the automobile industry is a very complex market with fixed players who fight a red battle for survival.

1.6 The sixth force

Porter’s framework has been challenged by other academics and strategists and they extended Porter’s five forces model with a sixth force, which is termed as the relative power of other stakeholders, which can refer to a number of other groups or entities, depending on the factor which has the greatest influence including:

- Complementary products
- The government
- The public
- Shareholders
- Employees

All these factors have an effect on the automotive sector, mainly in this crisis period.
2. Trends in the automotive industry

2.1 Green cars

„What changed in the US with Hurricane Katrina was a feeling that we have entered a period of consequences…”

(Al Gore)

Al Gore is former United States Vice President who presented the documentary film 'An Inconvenient Truth'. He shows in the movie the scientific opinion on climate change, discusses the politics and economics of global warming, and describes the consequences he believes global climate change will produce if the amount of human-generated greenhouse gases is not significantly reduced in the very near future. This is a hot issue for everyone.

Of course, automobiles have contributed to the global warming phenomenon. According to Sergio Marchionne, CEO of Fiat, the automobile industry considers that CO2 emissions reduction has to be dealt with by all interested stakeholders - manufacturers, oil producers, governments and customers - to find solutions with a better effectiveness related to costs. Green living is extended to environmentally friendly cars.

The desire to lessen environmental impacts and reduce oil dependence is spurring interest in alternative fuels and green technologies. One of the biggest innovations is the hybrid car, that uses two or more distinct power sources typically a gasoline engine and one or more electric drive motors to move the vehicle. Engines running on diesel or other alternative fuels can also be used in hybrids. A hybrid drive is fully scalable, which means the drive can be used to power everything from small commuter cars to large buses and even locomotives. Hybrids have usually better mileage per gallon than most non-hybrids, and usually have very low tailpipe emissions.

The term hybrid vehicle most often refers to a hybrid electric vehicle (HEV), which combines a conventional propulsion system with a rechargeable energy storage system to achieve better fuel economy than a conventional vehicle. Automotive
hybrid technology became successful in the 1990s when the Honda Insight and Toyota Prius became available. Since that time nearly every major car manufacturer came out with its own hybrid model or it least is planning to release one.

**Toyota** have been very efficiently developed its **hybrid system**, and it maintains an edge over its competition. By August 2008 the Japanese manufacturer has sold about 1.6 million hybrid vehicles based on 15 models through this has prevented 7.5 million tons of carbon dioxide emission. Last year it has sold roughly eight times more than sold by Honda Motor Co., its nearest rival. Toyota's hybrids are also the most profitable. On top of a huge boost from economies of scale, it has also cut costs by improving batteries and other hybrid components. Still the profit margin for hybrids is just over half of that of regular gasoline cars.

Toyota is planning to launch 18 new models that emit less CO2, including both brand new models and improved versions of existing ones. They aim to achieve sales of 1 million hybrid vehicles per year in the early 2010s. Toyota has been also developing clean diesel engines and will further improve fuel efficiency and make emission cleaner to meet Euro 5. To surely tackle environmental and energy issues, a longer term perspectives required to introduce bio-energy, electricity and hydrogen as the leading potential alternative energy.

**BMW** decided three years ago to make its ‘Efficient Dynamics’ fuel-saving technologies on most models. They have delivered 1.1 million cars equipped with their new system, that includes stop-start technology, brake-energy regeneration and other fuel-saving and CO2 emission lowering innovations, which has been particularly important in countries such as France, Portugal and Ireland, where car taxes are partly based on those emissions.

2005 saw the first hybrid electric sport utility vehicle (SUV\(^1\)) released, the **Ford Escape Hybrid**. Ford engineers realized that their technology may conflict with patents held by Toyota, which led to a 2004 patent-sharing accord between the

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\(^1\) SUVs are generally mid-sized passenger vehicles that became very popular in the United States, Canada, and Australia in the 1990s and early 2000s. But they have been criticized regarding excessive gasoline consumption, pollution, cost and safety.
companies. Ford has converted a Ford Escape Hybrid to Plug-in in December 2007 and will convert a demonstration fleet by 2009 to evaluate how the vehicles might interact with the home and the utility's electrical grid.

A plug-in hybrid electric vehicle (PHEV) is a hybrid vehicle with batteries that can be recharged by connecting a plug to an electric power source. The plug-in hybrid vehicle is based on the conventional hybrid system but has a larger battery storage capacity and the capability to be recharged from outside sources. It does not require dedicated power supply facilities and can be recharged from a standard household power outlet. It can be used mainly as a motor-driven electric vehicle for short distance driving and it can be driven as a conventional hybrid vehicle for long distance driving.

The battery pack for hybrid vehicles has also improved dramatically in size and weight. In the existing hybrid vehicles sufficient energy can be stored in the latest nickel-metal hybrid battery. But the commercial viability of lithium ion batteries, which are smaller and are expected to have better output than their counterparts, is an issue for all automakers. Lithium-ion batteries are expected to significantly improve fuel economy, and have a higher energy-to-weight ratio, but cost more to produce, and raise safety concerns due to high operating temperature. Finding ways to charge and replace them will be also a key for electric cars to reach the masses.

US and Asian rivals are rushing to hone lithium-ion technology. President Barack Obama has set a target of 1 million electric cars on U.S. roads by 2012. It will require about $40 billion worth of domestically produced batteries. A mass market develops for electric cars, which could take a decade, but the field is already crowded. The question is whether US battery makers like Ener1 or A123 will be the major players or the Asians who are counting on their dominance in lithium-ion devices for computers and appliances and on their ties with the hybrid programs of Toyota Motor and Honda Motor. Though the bigger stakes in the electric battery war are over which companies will control the key technology – the lithium-ion cells stacked inside the batteries and the design of the car power system. The strongest US player right now is Johnson Controls. Its French partner Saft has a cell plant, while Johnson's big edge is its supply and design relationships with the world's top automakers. But Asian governments, banks, and companies were more willing than Americans to risk
big capital investments. China has declared lithium ion a strategic industry. Panasonic seems to be the most formidable player now since it is allied with Toyota, which is planning an electronic car for 2012. Furthermore, Panasonic supplies 90% of the nickel-metal hybrid batteries used in today’s hybrids. But it is still dreams of the future. (Pete Engardio, 2009)

2.2 Globalization of the automotive industry

Globalization = the increasing integration of and interdependence between countries which brings about a cross-border flow of goods, services, capital and expertise (macroeconomic perspective)

Globalization = Focusing on the world market (microeconomic perspective)

Globalization is possibly the most important economic issue and challenge for management in the past decades and the years to come. It brought along the increased mobility of production factors, the increased world-wide convergence of consumer behaviour and lifestyles, a closer integration and interdependence of national economies and the increasing disintegration of economic and political boundaries.

Global vehicle production has more than doubled since 1975 and grew at an annual average rate of 2% in the period 1975-1990, rising to around 3% in 1990-2005, and extended to emerging countries like China, India and Brazil. This contributed to driving the pace of growth, though the boom in developing countries has not yet reduced the importance of existing markets in developed regions.

The best study about the globalization of car industry was written by Timothy J. Sturgeon (Senior Research Affiliate at the Massachusetts Institute of Technology), Dr. Olga Memedovic (UNIDO Staff member, at Research and Statistics Branch), Johannes Van Biesebroeck (Professor of Economics at the University of Toronto) and Gary Gereffi (Professor of Sociology and Director of the Center on Globalization, Governance, & Competitiveness at Duke University). On the basis of that I am going to summarize the main features and trends.
The automotive industry is distinctive because of more reasons. Firstly due to its extremely concentrated firm structure: a small number of giant car manufacturers (lead firms) exert an extraordinary amount of power over smaller suppliers, which creates high barriers to entry and limits the upgrading prospects for smaller firms. In 2001, 11 lead companies from three countries, Japan, Germany and USA, produced more than 2.4 million vehicles each and together accounted for around 82% of world vehicle production. In 2006, the situation had not changed much: 12 companies produced more than 2 million vehicles each and together accounted for 75% of world vehicle production. The geographic scope of lead firms and their largest suppliers expanded in a wave of offshore investments, mergers, acquisitions, and equity-based alliances in the 1990s.

Source: ‘Globalisation of the automotive industry’, page 5
Table 1: Vehicle production by company, 2001, 2003 and 2006 (in million units)

<table>
<thead>
<tr>
<th>Company</th>
<th>2001 (000 000)</th>
<th>2003 (000 000)</th>
<th>2006 (000 000)</th>
<th>Share of global production (%)</th>
<th>Share of global production (%)</th>
<th>Share of global production (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors</td>
<td>7.6</td>
<td>8.2</td>
<td>8.9</td>
<td>13.6</td>
<td>13.8</td>
<td>13.0</td>
</tr>
<tr>
<td>Toyota</td>
<td>6.0</td>
<td>6.2</td>
<td>8.0</td>
<td>10.8</td>
<td>10.4</td>
<td>11.7</td>
</tr>
<tr>
<td>Ford</td>
<td>6.7</td>
<td>6.6</td>
<td>6.3</td>
<td>12.0</td>
<td>11.0</td>
<td>9.0</td>
</tr>
<tr>
<td>Volkswagen Group</td>
<td>5.1</td>
<td>5.0</td>
<td>5.7</td>
<td>9.2</td>
<td>8.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Honda</td>
<td>2.7</td>
<td>2.9</td>
<td>3.7</td>
<td>4.9</td>
<td>4.9</td>
<td>5.4</td>
</tr>
<tr>
<td>PSA Group</td>
<td>3.1</td>
<td>3.3</td>
<td>3.4</td>
<td>5.6</td>
<td>5.6</td>
<td>5.0</td>
</tr>
<tr>
<td>Nissan</td>
<td>2.6</td>
<td>2.9</td>
<td>3.2</td>
<td>4.7</td>
<td>4.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Chrysler</td>
<td></td>
<td></td>
<td>2.5</td>
<td></td>
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<tr>
<td>Hyundai</td>
<td>2.5</td>
<td>2.7</td>
<td>2.5</td>
<td>4.5</td>
<td>4.5</td>
<td>3.7</td>
</tr>
<tr>
<td>Renault</td>
<td>2.4</td>
<td>2.4</td>
<td>2.5</td>
<td>4.3</td>
<td>4.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Fiat</td>
<td>2.4</td>
<td>2.0</td>
<td>2.3</td>
<td>4.3</td>
<td>3.4</td>
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<tr>
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<td>4.2</td>
<td>2.0</td>
<td>7.9</td>
<td>7.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Total of above</td>
<td>45.5</td>
<td>46.4</td>
<td>51.0</td>
<td>81.8</td>
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<td>17.3</td>
<td></td>
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</tr>
<tr>
<td>Total</td>
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<td>59.5</td>
<td>68.3</td>
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</tr>
</tbody>
</table>

Source: OICA, 2007 (www.oica.net)

A second distinctive feature specific to the automotive industry is that final vehicle assembly, and parts production, has largely been kept close to end markets because of political sensitivities. The high cost and the visibility of automotive products, especially passenger vehicles, can provoke political action among the general population if imported vehicles account for a too large share of vehicles sold and when local producers are threatened by imports. On the other hand, powerful local lead firms and industry associations, large-scale employment and relatively high rates of unionization increase the political influence of the automotive industry in many countries. So even where import tariffs and local content rules are not present or are scheduled to decline under WTO rules, assemblers have set up local production units. Market saturation and high levels of motorization have also encouraged the dispersion of final assembly.
There are other reasons to keep production close to final markets. First, motor vehicles and many of their main parts are large, heavy and sometimes fragile, which increase transportation costs. Second, the industry-wide implementations of ‘lean’ production techniques (Just-in-Time deliveries) since the mid-1980s have kept parts production close to final assembly in order to keep working inventories low and reveal defects quickly.

The third distinctive feature of car industry is its strong regional structure. Lead firm globalisation has also meant globalisation for suppliers. Actually we can talk about two classes of suppliers in the automotive industry, global and local. But the second group has no chances to survive.

Today it is a requirement for suppliers to have a global strategy, because otherwise they can not bid at all. They have to have a global supply system ready for produce the same part with the same quality and price in every location. Nevertheless, full production is not required at every location. Suppliers with a global presence can concentrate production of specific components in one or a few locations and ship them to plants close to their customer’s final assembly plants.

Within countries, automotive production is typically clustered in one or a few industrial regions, which dispersal tends to be durable. So called supplier parks developed in order to minimize the total cost of components with high logistic costs and produce parts that need to be delivered to final assembly lines on a JIT basis. But establishing units in multiple supplier parks is expensive, so suppliers sometimes rent facilities from automakers or local government authorities to lessen these costs and diminish the dependence on the automaker.

The fourth distinctive feature is that parts and sub-systems are specific to particular vehicle models not like in other electronic industries. The absence of open, industry-wide standards undermines value chain modularity and ties suppliers to lead firms, limiting economies of scale in production and economies of scope in design. It requires a close collaboration too that raises the costs. (Sturgeon, T.J., Memedovic, O., Biesebroeck, J.V., Gereffi, G., 2008)
2.3 Focus on expanding markets: China, India, Brazil and Russia

While the developed world is suffering from credit crunch, fluctuating oil price and economical crisis, there is a huge unsatisfied demand for automobiles in the emerging markets of Brazil, Russia, India and China (the so-called BRICs). Although they are also affected by the worldwide recession but their car industry is much less exposed to the downturn than that of Europe, North-America or Japan. It can be traced back to more reasons. Firstly, the levels of personal debt are far lower and a smaller proportion of cars are bought on credit. Secondly, a potential customer in an emerging market who has been saving for years to buy his first car will not postpone it because of some turmoil on the world market. And last but not least the BRIC economies have been expanding so fast that even in a meltdown they will grow.

Figure 2

This chart indicates the car ownership per 1000 people of driving age in different countries in 2007. We can set out that the car ownership in emerging countries is far behind that of the US (more than 900 cars), Western Europe and Japan (both around 600 cars). As in Russia it is below 200, in Brazil about 130, in China around 30 and in India less than ten. (Matthew Symonds, 2008)

2.3.1 China

China is already the world's second-biggest market with its yearly sales of 9.35 million vehicles (6.76 million passenger cars) in 2008, but according to predictions it will soon overtake America who accounts for sales of 16-17 million in an average year. It is even more admirable if we know the fact that 30 years ago only 5 000 vehicles were sold in China annually. The industry got its first major boost in 1978 when former Chinese leader Deng Xiaoping within the framework of his open-door policy allowed the establishment of joint ventures\(^2\) in the automotive industry.

\(^2\) Legally and economically independent partners establish a new firm that is jointly owned. It can be for only a specific project or a continuing business relationship.
At the beginning, **Volkswagen**, Europe’s biggest carmaker was the only one who agreed to set up joint ventures in China. The negotiations took more than 6 years due to China’s lacking experience in modern business management along with legal and patent protection. The nation’s first car venture, Shanghai Volkswagen Automobile Co., was finally established in 1985. The first car rolling off the company’s assembly line was the VW Santana sedan, which **dominated China's auto market for 10 years**, holding nearly 85 percent market share. *(Jin Jing, 2008)*

In 1990 Volkswagen founded its second Chinese joint venture with First Automotive Works (FAW). And in 2001 it established a third joint venture for the production of gearboxes. Volkswagen joint ventures employ 21 500 people and operate more than 1000 subsidiaries in China. China is the most important foreign market of the giant. But VW has rested too long on its laurels as first mover and reacted too late and wrongly to changes in the marketplace so it lost its market leader position to General Motors in 2005.

The government of People’s Republic of China has given a high priority to developing a competitive indigenous auto industry in the country. Earlier they restricted the import of cars, and limited vehicle joint ventures to a maximum of 50 percent foreign ownership. Through these ‘**local content’ regulations** they could achieve the fast transfer of both product and manufacturing technology and the training of Chinese engineers. And although after China’s joining to WTO in 2001 foreign car makers are no more obligated to work through joint ventures, they still do it, as without local connections they would not be able to cope with China’s intricate political and cultural system.

China’s five biggest carmakers (**SAIC, FAW, Dongfeng, ChangAn and Chery**) can afford to work with more big international car firms. For instance SAIC (Shanghai Automotive Industry Corporation) works with both VW and GM. Nevertheless they are striving for rolling out their own product line. Among China’s several independent carmakers Chery is one of the most promising which sold close to 500 000 vehicles in the last two years. The gigantic home market and a supportive government (which directly or indirectly owns most Chinese car firms) make China’s biggest manufacturers able to compete on equal terms with the world’s giants in a few years. *(Matthew Symonds, 2008)*
2.3.2 India

With a population of one billion and car ownership less than 1 percent, India is one of the most attractive future markets for the auto industry. Now it is the tenth largest car manufacturer with approximately 2 million units per year.

Like in most Asian countries, the government has considered the automotive industry a key sector for the development of the country, so until the economic reforms in 1991 it was strongly protected from the foreign investments. Until the birth of Maruti in the 1980s the market was supplied by only two manufacturers, Hindustan and Premiere, and they were also compelled to share the production of maximum 50,000 cars a year between themselves. Imports were impossible. In the absence of strong foreign competitors, the government-backed Japanese car manufacturer Maruti Udyog has dominated the Indian market in all segments from the 1980s until the turn of the millennium. Maruti Suzuki reserved its number one position with a 54% share in 2007-08 and Indians still think of Maruti as an Indian company, though the company offers nowadays modern Suzukis, such as the best-selling Alto and the more expensive Swift.

As the market had become gradually liberalised, appeared the major players like Ford, Honda, Hyundai, Daewoo, GM and so on. Although, the surge in investment has also led to a mounting problem of overcapacity, as the price level of an average passenger car is still much above the competence of the middle-class. And then came on the stage India’s only big entirely indigenous manufacturer, Tata Motors with its Nano, the ‘people’s car’, especially designed for the Indian market. There is no guarantee that the Nano will succeed, but it has aroused the world’s attention through its radically simplified production and design, which cut the supposed bottom price in half. It can change car-buying habits around the world. (John Parker, 2009)

2.3.3 Brazil

The Brazilian market is still dominated by the four firms that have been there longest—GM, Ford, VW and Fiat. The Italian brand, Fiat, chose the most successful strategy. It allowed a lot of autonomy for its Brazilian management being Brazilian by birth, and now it became market leader. The market is expanding thanks to the high
import taxes, which force the automobile manufacturer to produce locally. According to predictions Brazil will be the world’s sixth biggest car producer in 2013.

Figure 3: Share of biofuel production in share of total road consumption in 2007

Source: Based on EBB, 2008; F.O. Licht, 2007 and IEA 2007

The most interesting fact about Brazil is that half of the fuel used by cars in the country is ethanol, so nearly all new cars are able to run on any combination of ordinary petrol and cane-based ethanol. Brazilian prefer it as it costs half the price of normal petrol, and the government is also keen on ethanol because the industry employs over a million people, protect the economy from import and fluctuation of oil prices. (Matthew Symonds, 2008)

2.3.4 Russia

After the fall of the Soviet Union in 1991 hard times came for the Russian automakers. Even when the economy began to recover from the crisis in the late 1990s, Russians abandoned their own-made cars and preferred imported used vehicles. While AvtoVAZ, the country’s biggest carmaker became a byword for the gangsterism. The Kremlin elite expanded its influence over the oil sector and extremely lined their pockets. So Mercedes, BMW, Bentley and Ferrari became the most popular cars in Moscow. We can say that in Russia car is a matter of prestige. Russian people are addictive of huge and expensive cars, which consume tons of gasoline, but of course it does not keep them from purchasing.

In response to this trend the government imposed heavy import duties on used cars coming from Japan and Europe, and inspired foreign manufacturers to assemble
their products in Russia. The pioneers have been GM and Ford, who established their plants close to St. Petersburg. The city is very popular among other car manufacturers too, who are attracting the global parts suppliers. So the governor of the city wants to turn it into Russia’s Detroit with good reason.

Renault has committed itself to acquire a stake of 25 percent in AvtoVAZ. The French company wants to turn the post-Soviet manufacturer into a modern car company. Renault wants to bring its modern technology and know-how and aims to launch a succession of new Ladas that will be competitively priced and offer much higher quality than AvtoVAZ does at present. The first should come out to the market by 2010. But to reach their sales target of 2 million sold units per year they have to face several difficulties: outdated factory installation, lack of competitive suppliers, intensifying competition combined with rising safety and environmental standards. (Matthew Symonds, 2008)

2.3.5 Conclusion

Matthew Symonds, industry editor of The Economist, outlined in his three-part report about the car industry of emerging markets the five main lessons for car companies who want to succeed in these countries. These are the following:

1. they must show commitment
2. there is no single business model in every country or for every company
3. local conditions and local tastes must be catered for when adapting existing models
4. BRIC customers are no longer interested in outdated or inferior offerings
5. car makers should not get carried away by big numbers

I would complete this with two observations, which could be critical factors in case of success. Firstly, they have to take into consideration that in these countries the infrastructure and fuel are usually of poorer quality. So the cars have to be adapted to local conditions, mainly by strengthening the body, suspension, steering, etc. Secondly, the car manufacturers have to turn with special regard to the middle-class if they want to boost their sales. The demand of middle class represents the economical direction of the country’s development.
3. Fierce competition

3.1 The S curve of regression

A.T. Kearney, global management consulting company, published a worldwide study about the nature of consolidation in the biggest industries (Winning the Merger Endgame). The authors discovered that the consolidation movements are not random, but they follow an S curve that spans about 25 years and then it starts again. Industries are transformed through this process, so it can be divided into 4 stages. Each stage requires specific strategic and operational behaviour.

**Figure 4: The S-curve**

Opening Stage: There is a little or no market concentration and the first consolidators may appear. Newly deregulated, start up, and spin-off industries occupy this space.

Scale Stage: Size begins to matter. Major players begin to emerge and take the lead in consolidation. Concentration rates can be as high as 45% in some industries.
Focus Stage: Successful players extend their core businesses, exchange or eliminate secondary units, and continue to aggressively outgrow the competition.

Balance and Alliance Stage: A few players will dominate industries, with consolidation rates as high as 90%. Titans of industry reign, from tobacco to automotive companies and engine producers. Large companies may form alliances with other giants because growth at this stage is more challenging. “

(Graeme K. Deans, Fritz Kroeger, Stefan Zeisel, 2004, p6, Figure 1-1)

The above graph depicts the situation in 2004. The automotive OEMs were already that time at the beginning of the focus stage. So the past 5 years were mainly about mergers and acquisitions in the industry. The global crisis dealt the last blow. Now we are waiting for the results, namely that who will retire from the competition and who will remain. According to prediction a maximum of 8 players will survive the trials, share the market and serve the whole demand.

3.2 Mergers and acquisitions

The most important indicator of success is the market growth. It is important that a company should show off both external and internal growth, possibly in fifty-fifty proportion. Internal growth derives from increasing turnover or raising value of the offered products. External growth means company expansion through mergers and acquisitions. Hence the situation of smaller car manufacturer is doubtful, as they have no potential to acquire huge firms.

Toyota is the must successful automaker worldwide, it sells more cars alone than all the German OEMs together. However the latter ones are very successful in certain segments, mainly in the premium segment. This ensures them kind of safety in case of changes in the regulations or other price-increasing effect, as their customers are much less price sensitive than buyers of city cars or compact ³vehicles, so they can easily push the additional costs to their end-customers.

³ Compact is the North-American classification of cars which are larger than a supermini, but smaller than a large family car. In Europe they are called small family or C-segment cars.
As there is no optimal or maximum size of a company, it is essential to expand their operation. **The fastest way of entering a new market is the acquisition of local firm.** Acquisition means that a generally larger firm purchase more than 50% of the stakes in a smaller company. It enables the buyer to benefit from existing structures, customer relations, brands, business savvy and in case of a foreign takeover the knowledge of the business environment in the host country. In markets with a high level of rivalry an acquisition may be the best way of avoiding a fierce fight of established firms against a new entrant. An acquisition immediately generates additional cash flow, so it can also be used as fast growth strategy to make a company large enough not to become a take-over target itself. As a disadvantage we can mention the need of a huge investment and difficulties in estimating the adequate price for the target company. The integration can also involve problems if the corporate and national cultures are not consistent with each other. An acquisition may be friendly or hostile depending on the willingness of the acquired company’s management.

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**Figure 5:** Average yearly market growth of the biggest carmakers from 2002 to 2006

<table>
<thead>
<tr>
<th>Turnover in million</th>
<th>4-year market growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Toyota</strong></td>
<td>8,8</td>
</tr>
<tr>
<td><strong>General Motors</strong></td>
<td>8,7</td>
</tr>
<tr>
<td><strong>Ford</strong></td>
<td>7,8</td>
</tr>
<tr>
<td><strong>Renault-Nissan</strong></td>
<td>5,9</td>
</tr>
<tr>
<td><strong>Volkswagen</strong></td>
<td>5,7</td>
</tr>
<tr>
<td><strong>DaimlerChrysler</strong></td>
<td>3,2, 1,5</td>
</tr>
<tr>
<td><strong>Hyundai-Kia</strong></td>
<td>3,8</td>
</tr>
<tr>
<td><strong>Honda</strong></td>
<td>3,6</td>
</tr>
<tr>
<td><strong>PSA</strong></td>
<td>3,4</td>
</tr>
<tr>
<td><strong>Fiat</strong></td>
<td>2,3</td>
</tr>
<tr>
<td><strong>BMW</strong></td>
<td>1,4</td>
</tr>
<tr>
<td><strong>Porsche</strong></td>
<td>0,1</td>
</tr>
</tbody>
</table>

*Source: A.T.Kearney Analyse, 2006*

1. *since August 2007 separated*
We can talk about a **merger** when two firms, often of about the same size, decide to go forward as a single new company rather than remain separately owned and operated. The motives behind this can be the synergy that derives from the reduced fixed costs by removing duplicate departments or operations. They can benefit from the larger manufacturing platform through better taxation facilities and economies of scale.

An ominous merger was the **DaimlerChrysler** that was founded in 1998 when the German Daimler-Benz merged with the US-based Chrysler Corporation. It was billed as a ‘merger of equals’, but in the end the participants could not make a success of it and their marriage failed in 2007. Daimler tries to perform on its own way, while Chrysler seems to be less capable of going alone. **Fiat** raised the hope in the company’s life, when they made a non-bidding term sheet in January 2009 to form a strategic alliance. Under the terms of the deal Fiat will take a 35% stake in Chrysler in exchange for supplying it with its highly fuel-efficient power-train technology and small and medium-sized vehicle platforms. It would also help Chrysler to penetrate markets like Europe or South-America. Fiat would get in return an access to the US market and the option to pick-up the assets of Chrysler, if it would accidentally fail.

The most often heard acquisition in the recent past was **Porsche**’s gambit. It had been steadily increasing its stake in **Volkswagen** since 2005. The two German manufacturers had always had a close relationship. And Porsche claimed that it did not intend any takeover, but to avoid competitors taking a larger stake or to stop hedge funds from dismantling. But finally it surprised the whole finance world when last October it took a majority stake in the giant carmaker.

The possessive relations in the automotive industry are very tangled nowadays, and probably it will be even more complicated in the future. But the main motive behind these fusion actions is not necessarily the market effectiveness. As we could see it also in the case of DaimlerChrysler, that there is no guarantee for success. The current car manufacturers are so huge themselves, that it is no wonder if they cannot integrate another large corporation. But still managers are striving for growing. Why? The answer lies in the **psychology of power**.
3.3 Changes in the value chain

In competitive terms, value is the amount buyers are willing to pay for what a firm provides them. A company is profitable if the value it commands exceeds the costs involved in creating the product. Every firm is a collection of activities that are performed to design, produce, market, deliver, and support its product. The value chain disaggregates a firm into its strategically important activities in order to understand the behaviour of costs and the existing and potential sources of differentiation. There are different value chains within an industry according to focus on the industry segment; the activities’ geographical expansion and measure of integration; the function of related industries’ or the coalition with other industries. Every value activity employs purchased inputs, human resources, some form of technology and also uses and creates information.

Figure 6: Simplified value chain of the automobile production

Value activities can be divided into two types: primary activities and support activities. Primary activities are the activities involved in the physical creation of the product and its sale and transfer to the buyer as well as aftersales assistance. In any firm, primary activities can be divided into the five generic categories which are the following:

- **Inbound Logistics**: include the receiving, storing, and disseminating inputs to the product, such as material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers.
- **Operations**: transform inputs into the final product form through machining, packaging, assembly, equipment maintenance, testing, printing, and facility operations.
- **Outbound Logistics**: are the activities required to get the finished product to the customer, including collecting, storing, physically distributing, material handling, delivery vehicle operation, order processing, and scheduling.
• **Marketing and Sales:** provide means by which buyers can purchase the product and inducing them to do so, such as advertising, promotion, sales force, quoting, channel selection, channel relations, and pricing.

• **Service:** aims to enhance or maintain the value of the product, such as installation, repair, training, parts supply, and product adjustment.

Support activities support the primary activities by providing purchased inputs, technology, human resources, and various other functions. Firm infrastructure is not associated with particular primary activities but supports the entire value chain. The categories of support activities are the following:

• **Procurement:** the function of purchasing raw materials and other inputs used in the firm’s value-creating activities.

• **Technology Development:** includes research and development, process automation, and other technology development used support the value chain.

• **Human Resource Management:** activities associated with recruiting, hiring, training, development, and compensation of employees.

• **Firm Infrastructure:** consists of general management, planning, finance, accounting, legal, government affairs, and quality management.

**Figure 7:** The model of value chain according to M.E. Porter

*Source: Michael E. Porter, Competitive Advantage, 2004*
Global value chain analysis of automotive industry begins with differentiating two types of firms: lead firms and suppliers. **Lead firms** known as automakers or original equipment manufacturers within the industry decide product strategy, place orders, take financial responsibility for final goods production, carry out most aspects of product design, the production of most engines and transmissions and nearly all vehicle assembly within their own facilities. They are large employers, traders and innovators. They have substantial coordination and buying power in the chain.

The role of suppliers has changed a lot in the past 20 years. The OEM trend to increase outsourcing since the early 1990s has also required the globalization of suppliers. It has led to the creation of large **global suppliers**, which have taken on a more extensive role in the areas of design, production and foreign investment. Though there are still remaining local suppliers, but they do not have any chance to grow, as in most of the cases if a supplier does not have a global strategy it can not bid at all. Nevertheless, full production is not required at each location. Suppliers with a global presence can concentrate the production of specific components in one or a few locations and ship them to plants close to their customer’s final assembly plants.

The strong competition, the complexity of the vehicle systems and the lack of standardization force a close cooperation between the OEM and the lead firms. Specifications can either be developed jointly, in a co-design process, or suppliers must be provided with full instructions on what to produce.

- **Relational linkage**: means that design engineers from lead firms and suppliers work closely together to develop parts that will work in the context of the overall vehicle design.
- **Market linkage**: means that lead firm engineers develop all vehicle parts in-house and then put the part out for bids. It allows the easy switching of suppliers.
- **Captive linkage**: means that the lead firm invests in the supplier company.

Traditionally, European and US lead firms have had market linkages with suppliers. But nowadays there is an increasing need for co-design, and linkages with suppliers have become more relational. Japanese lead firms have tended to form long-term, captive relationships with suppliers.
The increased responsibility of the suppliers generates strategic goal of automakers to work with a smaller number of large suppliers. Volkswagen and Renault follow the 2+1 supplier strategy, which means, that there are two suppliers who are responsible for a given major module of a particular model around the globe. And there is a third supplier with less involvement, but enough knowledge to replace any of the key parties. Ford follows a more aggressive mono-supplier strategy, which aims to have a single supplier producing the modules. This approach is very risky.

Figure 8: Declining number of automotive suppliers

![approximate number of suppliers](image)

Source: Bain & Company, 2003

Logistics operations (inbound and outbound) in the automotive supply chain are complex and account for large expenses. The speed and reliability of logistics operations become critical elements. Better coordination contributes to optimizing the supply chains, to reducing inventories and to responding to consumer requests. As a solution for these ambitions the Just-in-time inventory strategy came alive. According to this inventory is defined as a waste; waste of money, time and space. In the just-in-time inventory system is all about having “the right material, at the right time, at the right place, and in the exact amount”, without the safety net of inventory.

The technique was firstly adopted and publicized by Toyota as part of its Toyota Production System (TPS). The basic principles of TPS were defined by the chief engineer of the company, Taiichi Ohno in the 1950’s. The two pillars of the concept are Just-in-time and the so called ‘autonomation’ (smart automation).
The Western world realised that TPS was behind the success of the Japanese vehicle industry around 1990 and that its implementation is a necessity, so most automotive giants worked out their own similar production system. So the method gets a new name, it is known as **Lean Production** or simply ‘Lean’.

*James Womack* and *Daniel Jones* have defined the five basic principles of the Lean Production in their book *Lean Thinking* in 1996. These are the following:

1. **Identify value for your customers.** All activities which do not serve the production of value directly are wastes.
2. **Understand your value stream.** Identify where the value is produced, assess inventory and find out how to reduce it.
3. **Ensure free flow of value.** Transform your processes, practices and even your organisation, and reduce drastically the work within inventory procedure.
4. **Introduce pull – the process where the delivery is triggered by the necessity of the next step in each phase.**
5. **Strive for perfection.** One way to define perfection is by using the ‘zero principle’: zero stoppage of machinery, zero waiting, zero accidents, etc.

Due to this method OEMs could reach a nearly 100% improvement in productivity, which derives from the reduction of lead time, inventory and thus floor space, and the improvement in meeting the delivery schedules. In addition the quality and working morale also improved. It made companies more competitive and ensured the profitability. But nowadays this method same to be outdated, as it works only if cars are sold well. In the current downturn even Toyota rents a large vacant plot to store vehicles in China.

The operation of lead firms is restricted mainly to final assembly. But the vehicle **design and development is strongly concentrated within the headquarters.** Although consumer preferences sometimes require automakers to alter the design of their vehicles to fit the characteristics of specific markets, so they tend to establish affiliated design centres in important foreign markets. And even suppliers of parts have taken on a larger role in design and have established their own design centres close to those of their major customers to facilitate collaboration. On the other hand the increased number of outsourced activities imposed extra responsibility on central
R&D departments, namely that it has to act as interface management between suppliers and technical department.

Hereby I would like to write some words about the significance of design within the automobile industry. Already in the morning of vehicle industry producers recognized that however glittering the salon or polite the sales people are, however high quality or cheap the product is, nobody wants to buy something ugly. Companies spend millions of dollars and Euros on computer software, star designers and design studios located in an inspiring environment. It is not a coincidence that Renault, Seat, Volkswagen and even Volvo have their studios in Barcelona, the city of art and sunshine.

The distribution channel of car industry is undergoing sweeping changes. The traditional brand-based distribution channel is outdated. Auto manufacturers have competed fiercely among themselves to drive out cost and meet consumer needs for cheaper and better cars. But the only winner of this battle is the customer. The integrated model of new-car sales, used-vehicle sales, finance and insurance, service, parts, and fleets was established at the time when automobile retailing was still a new industry. In today's world it does not make sense to concentrate all these different operational tasks within a dealership. The cost of distributing and marketing automobiles will be cut significantly through the cooperation of multiple channels.

It is crucial to build durable and close customer relationship especially in these though times. One of the most effective ways to increase customer loyalty is to maintain high-quality after-sales services, which include not only the customer claim and warranty management, but also the maintenance operations, the spare parts planning and logistics, and all the operations with a lasting effect on customer satisfaction. In addition it is very often a highly-profitable business, as correctly managed after-sales services can generate between 20-30% of total sales. And we have to consider that the internet technology enables more efficient direct contact between manufacturers and their end customers.

The biggest winners in the automotive value chain evolution will be those who drive substantial value improvements by creating real innovations.
4. Who will remain after the crisis?

4.1 Global automotive industry crisis 2008-2009

The automotive industry crisis 2008-2009 was preceded by the financial crisis of 2007–2009 that began in July 2007 in the United States with a credit crunch on the subprime market. Subprime lending is the practice of lending, mainly in the form of mortgages for the purchase of residences, to borrowers who have less ability to repay the loan as they do not meet the usual criteria of credit score and credit history. Low interest rates and large inflows of foreign funds created easy credit conditions for a number of years causing a housing market boom and encouraging debt-financed consumption. That resulted in increased house prices and conversely less spending and more borrowing. But the bubble burst, and started a chain reaction in the world. Beginning with bankruptcy of Lehman Brothers on September 14, 2008, the financial crisis entered an acute phase, and in 2008–2009 much of the industrialized world entered into a deep recession.

The automotive sector has been firstly and most deeply affected by the crisis. Reasons behind this are the latent overcapacity since more years, gradually growing oil prices and the fact that cars belong to most expensive products which are not any more affordable for the great majority. But the freezing of credits has also contributed to the downturn in sales, as credit is the most preferred marketing tool among car manufacturer. Cheap finance is usually better than a straight rebate on the purchase cost, because it helps maintain both the prices of new cars and residual values. More than two out of three sales in Europe are credit-financed. In America this rate more than 90%. So it is not a surprise that the States’ car sales dropped by 18% in December 2008 compared to December 2007. In Europe the decline reached the same percent in February 2009.

All carmakers around the world are dropping shifts, dismissing workers and closing factories. They are postponing or aborting the launches of new models, and offering irrational incentives to lure customers into empty showrooms. And they are begging for government bail-outs, but the sense of artificial respiration is doubtful. There is far too much capacity worldwide and a smaller industry would be a healthier one.
Currently the world could produce about 94 million cars a year, whereas about 60 million is the yearly world demand. In addition the car sector is globalized to that degree, where it does not make sense to give support to any party, as through the tangled linkages it will disappear in the big whole.

### 4.1.1 The United States

The situation of two carmakers out of the US Big Three (GM, Ford and Chrysler) became critical. The once largest carmakers in the world play still a significant role in the global car manufacturing, and they have maintained the top three positions in North- America so far. But they were criticized since some time because of their policy of shifting away resources from midsize and compact cars to the production of fuel-inefficient SUVs despite the steady increase in oil prices. So it is no wonder that their sales dropped drastically after the boom which was a death attack on their finances after past years restructuring.

The outgoing Bush administration gave a bridging rescue package of 17.4 billion US dollar to the Detroit carmakers out of which GM received $13.4 billion and Chrysler $4 billion. But both firms were seeking for extra money to prevent bankruptcy, GM asked for an additional amount of $16.6 billion and Chrysler for $5 billion on top of its former loan. Ford hopes to manage it alone through the recession.

It became one of the main duties of the incoming president to make a decision about the second bailout. Barack Obama set a deadline for 31st March to present recovery plans and he set up a presidential task force to assess the restructuring efforts of the two companies. Despite the expectations, the Obama taskforce deemed the efforts insufficient and withdraw the second rescue package from the automotive giants. Although the government will provide working capital for 60 days for GM while it can thinks again about its survival plans. The more dubious Chrysler got only 30 days to find its way, possibly to agree with Fiat about a potential integration. But the prospects are bad. An alternative option is a structured bankruptcy according to Chapter 114 of either or both firms.

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4 This form of bankruptcy (called restructuring) is commonly used to provide opportunities for a corporation to renegotiate contracts, sell assets or component businesses for cash, obtain debt forgiveness, or otherwise reform itself as a viable business enterprise.
4.1.2 Germany

The German automobile industry, one of the key pillars of the European economy, faced a reduction of 20% in car export year-by-year in the last quarter of 2008. The German government has already demonstrated its willingness to help its ailing automotive sector by introducing a 2,500-euro-cash incentive for car owners who change their old cars for new ones. Due to that instruction the car sales has jumped in February by 22% on the local market compared to February 2007.

The efforts of the government are supplemented by the protective net of the loyal German population. They are transferring money from their saving banks to their beloved carmakers’ independent banks. Banking of car companies is a tried and trusted way of financing and leasing cars in the country. Due to the state’s guarantee and the attractive interest rates, some auto manufacturer could double its deposits in half a year.

The hottest issue within the German car industry is the fate of Opel. The originally German brand belongs to the American GM since eighty years, but within Europe it still has the biggest production facilities in Germany, so its failure would strongly concern the German economy. GM has submitted to the German government a bailout plan that features an aid of 3.3 billion euros ($4.2 billion). Though the government will be reluctant to allow Opel to fail before the general election in September, they are sceptic about the recovery of the company. It has been losing market share for years, though it was already bailed out by the German government in the past. Another fact that makes Merkel’s administration less willing to support Opel is the fact that it does not bring any benefit for the country except the workplaces. It remitted all its profit to the US that is obviously disliked by the German.

4.1.2 France

The French car industry directly employs 700,000 people in the country and 2.5 million indirectly. The unemployment rate was at 8.3% in March 2009 at the time of the second big strike waves. The government adjusted a rescue package of 6 billion euro ($7.6 billion) to the two biggest French carmaker, Renault-Nissan and PSA Peugeot Citroen on condition that they do not close any factories for the
duration of the state loans, and make efforts to avoid layoffs. President Nicolas Sarkozy was caught in crossfire within the European Union because of these instructions. The EU competition commissioner demanded a written promise that the aid will not limit the other carmakers’ freedom in the single market and with that guarantee she gave the go-ahead.

4.1.4 Japan

The Japan economy is suffering from chronic overcapacity since more years. Its automotive industry is highly depending on export. Thus Japanese carmakers can be attacked by the European and American bailouts, though they are much better shaped than their US rivals. Toyota declared that it expected the first time loss in 70 years. Toyota Motor Corporation along with Honda Motor, Nissan and Suzuki have decided to cut production and lower their workforce.

4.2 Chances

The automobile sector is shrinking, while there is a trend of consolidation. In 1970 there were 57 independent car manufacturers in the world. In 1996 this number was 19. Today we can count with 13 global automakers, but this will be cut in the current crisis. According to predictions only 8 independent OEMs will remain in 2010. But who will fail and who will survive or even succeed is a big question mark now. In this chapter I am going to analyse the strengths and weaknesses of the existing players.

Figure 9: Number of independent carmakers

Source: Market Data Books (Automotive News), 2002
4.2.1 General Motors

GM was founded in 1908 in Michigan. It expanded rapidly and was recorded as the largest carmaker in the world for 77 years. At the end of 2008 it employed approximately 266,000 people in 140 countries, and its production capacity was over 9 million vehicles per year. Its brands were the following: Buick, Cadillac, Chevrolet, Daewoo, GMC, Holden, Hummer, Opel, Pontiac, Saab, Saturn, Vauxhall.

As its main market is the U.S. market, it was firstly attacked by the crisis, and its destiny became critical in 2009. GM’s well-known problem is that it is too big, which means too many dealers and employees, high labour costs, too many brands and too much debt. Its failure could bring down hundreds of parts suppliers on which other carmakers are depending too. But GM, unlike Chrysler, has been improving its products rapidly and it has the technological resources to be a leader in low-emission powertrains. The Chevrolet Volt, a plug-in hybrid, is due to be launched next year.

Although it is still successful in markets like China, but it must restructure its business significantly, otherwise the whole giant will fall. The company has already decided to shut 14 factories in America, eliminated nearly 2,000 dealers, dismissed 47,000 employees and put up Hummer, Saturn and Saab brands for sale or closure.

Opel causes a big dilemma for the carmaker. The originally German brand belongs to GM since eighty years, ensured its European presence and success, and is of critical importance to GM’s future. The business was successfully restructured and sized to demand in 2000, so the European operation was profitable from the end of 2003 until 2009. Now GM Europe has an overcapacity of more than 30%, which is too much to survive this year. GM is willing to sell an equity stake of 25-50% in Opel, and to form it into a legally independent holding company. But all these proposals are undermining the future of General Motors, as without Opel, GM’s promises to build a fleet of smaller and more fuel-efficient cars in North America would lack conviction. And either Opel could not survive deprived of GM’s scale.

The United States denied the rescue package for lack of feasible restructuring plan on the 31st of March. GM got 60 more days to linger. What makes its situation more difficult is that it lost the most important success ingredient of carmakers: the
brand image. Who wants to buy cars from a dying manufacturer? Nobody. Who wants to invest in a loss-making company? Nobody. Which government is willing to push the state’s money in a crisis period into a firm that does not know how to use it? None.

4.2.2 Ford

Ford Motor Company was founded by Henry Ford in 1903. The company started to produce the legendary T Model in 1908, which was a historical turn in the car industry. It was the first model produced on assembly lines. Through the large-scale manufacturing the automobile became affordable for the American great majority.

Today Ford is the world fourth largest automaker based on worldwide sales, and seems to be the most stable party of the Detroit Three. It decided not to ask for a government bailout. They try to convince the public that Ford is stronger, greener and more technologically advanced than its U.S. rivals. Alan Mulally, Chief Executive, requested for a credit line rather than loans. This unaided strategy is risky, but separates Ford in public mind from General Motors and Chrysler, which is general goal of the management.

Ford’s priorities are now to launch small cars in North-America and integrate the company’s global operation. Ford has already shifted the balance of its US product portfolio from a 70 percent emphasis on trucks and large SUVs in 2004, to nearly 60 percent smaller cars today, and it plans to bring six more small vehicles from its European line to North America by 2012. If they find the way to achieve a decent profit margin on small cars, they have good chances to return to profitability.

4.2.3 Chrysler

Out of the 14 big volume carmakers, Chrysler is the most likely to disappear this year. The company was established in 1925. It expanded to Europe in the 1960s, but it was not profitable and faced bankruptcy at the end of the 1970s. From 1998 to 2007 it was acquired by Daimler-Benz, and became a subsidiary of DaimlerChrysler AG. It was a good opportunity for the company to enter the European market, but the marriage brought not the expected results for Daimler, so they decided to sell their stakes in Chrysler.
The main problem of the carmaker is that it is exclusively formed to the U.S. market. It would need to reform its whole product range to succeed on any other territory. Its only hope among these unpromising circumstances is an alliance with Fiat. In January 2009 the Italian carmaker has announced that it has a non-binding term of acquiring a 35 percent stake in Chrysler in exchange for supplying it with highly fuel-efficient powertrain technology. Fiat could make available to Chrysler its small and medium-sized vehicle platforms and it could help the U.S. firm into overseas markets, such as Europe and South America. But the problem with this theory is that it would take a couple of years to run the tie-up properly and to develop the vehicles that Chrysler cannot afford alone.

4.2.4 Volkswagen

The German brand was founded on Hitler’s initiative in 1934, who was keen on to create a car suited for working man. The name Volkswagen means “People’s car”. The first VW model was designed by Ferdinand Porsche, thus the two firms have always had a close relationship. Nevertheless, everyone was startled as last October Porsche had taken a majority stake in VW.

Europe biggest car manufacturer sold 6.3 million cars in 2008, and with this result it overtook Ford as the third largest automaker in the world. Although VW’s sales have also fallen in the past months by 15 percent compared to the same period last year, but they insist to their ambitious strategy to be world car leader by 2018.

The U.S. market is the top priority for the German automaker, they want to triple their sales and sell 1 million vehicles in the United States by 2018. They started to build an assembly plant in Chattanooga, which is to open in 2011 with yearly production capacity of 150 000 cars. They consider that it is the right time for building plants while the economy is slowed down, thus when sales will improve, it will be ready to pour cars. The automaker plans to introduce at least 10 new models on the U.S. market and to take its Audi luxury brand along.

In addition they want to sell more cars in the emerging markets of China, Brazil, India, Russia and even South-Africa. But whether all ambitions could materialize under the current uncertain prospects remains to be seen.
4.2.5 Daimler

Daimler AG is a German manufacturer of automobiles, trucks, motor vehicles, and engines, which dates back more than a century. Now it is the world’s thirteenth largest automobile manufacturer. Its **iconic brand Mercedes** has a worldwide reputation of excellence. Their main focus has always been luxury cars.

But the company was exposed to enormous pressure in the early 90s. The oil crisis of 1973 and 1980 were followed by an accelerating recession, by saturation of the automotive markets with overcapacities, by an accelerating consolidation process, as well as the penetration of the Japanese auto manufacturers. But the then-Mercedes-Benz offered only a limited choice of passenger cars, and was ranked at the 19th position. Thus **in 1993 they announced a full-line production** offering high-quality vehicles in all segments of the market. With A-class the company offered a fleet of new compact cars, with M-class it entered the highly growing segment of SUVs. Later on they developed the Smart in cooperation with the Swiss watchmaker, Swatch.

Like other automobile manufacturers, Daimler has been hit badly by the global economic downturn. It sold 25 percent fewer cars in the first two months of this year. The major weakness of the company is that **it is not big enough** to produce and develop smaller cars effectively, so it is seeking cooperation with its Bavarian rival, BMW.

4.2.6 BMW

BMW was founded in 1916 and is known for its **performance and luxury vehicles**. It owns and produces the Mini brand, and is the parent company of Rolls-Royce.

Along with Mercedes, Audi and the other luxury brands, BMW is suffering from the current **depressed residual values**. They are offering huge discounts and incentives on brand-new products to attract customers, but people prefer to buy a second-hand car for even less. BMW relied too much on leases. More vehicles from the good times are still waiting to come off lease, and will end up in auctions as owners are usually unlikely to take up the option of purchasing their leases.
Although the Quandt family, owner of a 46 percent stake in BMW, was against the idea of cooperating with Daimler, they are compelled to the cross-ownership, in order to cut costs of parts procurement and technological development. They were already working together in some projects, but now they are more dependent on each other than ever. If the current negotiations will be carried through, this could mean the beginning of deeper common work that can bring advantages for both parties.

4.2.7 Toyota

The Japanese carmaker is currently the world’s largest and most profitable automaker. It maintains over 16 percent share of the US market that makes it the second biggest US player.

Toyota was the first who mass-produced hybrid vehicles, and has already sold 1.6 million based on 15 models. It had a competitive edge in hybrid technology for more years, but its rivals caught up on the new plug-in technology. Toyota has started to develop electric vehicles, and has established a new battery research division. The company has been also developing clean diesel engines and is planning to launch 18 new models that emit less CO2. They aim to reduce costs and increase their earnings on hybrid vehicles.

In 2008 Toyota declared operating loss the first time after 70 years, and requested a loan from the Japanese government. But it is the most unlikely to fail in these hard times.

4.2.8 Suzuki

Suzuki is the 11th largest automobile manufacturer in the world. The company’s minicars are very well positioned in Central-Europe. This segment of small, modern, eco-friendly cars are the second-fastest-growing class in Europe. But through the low prices it is even the most fragile.

Suzuki’s sales was strongly cut in Europe, as its customers are from the middle class, who are reluctant to purchase new cars in the current crisis, and in most of the cases they can not afford it at all without credit. The car manufacturer announced
that it will cut production in Japan by about 30,000 units due to falling demand. The company was expected to face its first profit drop in eight years for financial year ending in March 2009.

Another important market for Suzuki is India. It had an autocracy of producing Maruti for long years, which is still market leader. They see India as the right production site after assessing its R&D capacity, local wage structure and supplier base. So they are already building Alto and Pixo in India, and are planning to export 120 000 units to Europe in 2010. This strategy could be a future direction of the company, if they want to remain competitive.

4.2.9 Honda

Honda Motor Company is a Japanese manufacturer of automobiles, trucks, motorcycles, and engines. It is the sixth largest automobile manufacturer in the world and the fourth in the United States. It has won a lot of market share in the past few years and has even reported 1 percent sales growth in 2008. But the company has to fight against losses in the new business year from April, as a strong Japanese yen adds to the pain when profits are repatriated.

Honda automobiles are well known to be very reliable. Honda makes models such as the Civic and Accord, which have a reputation for fuel-efficiency. Honda Insight was introduced as a hybrid vehicle, but since that time they have hybrid variations of other brands also. Acura is a separate luxury line with more power and sportiness.

4.2.10 Hyundai / Kia

The Hyundai Kia Automotive Group was formed through the merging of South Korea's largest car company, Hyundai Motor Company, and the nation's second largest car company, Kia Motors in 1998. It is the world's fifth largest automaker in terms of units sold per year. The Group is selling mid-sized sedans, sport compacts, SUVs and large vans.

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5 A sedan or saloon is a passenger car with two rows of seats and adequate passenger space for adult passengers. The vehicle usually has a separate boot.
Hyundai Motor is very successful in the US nowadays, as the Korean currency has dropped by nearly a third against the dollar in the past year. The company is spending heavily to lure more American into its showrooms, and is taking a bigger slice of the slumping US market. Hyundai posted a 1.5 percent drop in US auto sales in February 2009, compared with a 39.8 percent plunge at Toyota Motor Corporation and a 38 percent drop at Honda Motor. But the aggressive push could backfire in two years, when rental vehicles typically end up on used-car lots. And the expensive marketing erodes the margins of the lowered prices.

4.2.11 Peugeot / Citroën

The French automobile and motorcycle manufacturer PSA Peugeot Citroën is Europe's second and the world's seventh biggest carmaker. Since Peugeot acquired Citroën in 1976, the two brands retained their separate sales and marketing structures, but have benefited from a common technology, development and assembling assets.

The company revealed unexpected losses for 2008 after outlays of nearly 1 billion euros on unsold cars. Additionally the downturn hit PSA at a time when it was facing question marks over senior management. The carmakers strategy to weather the crisis was unclear, so the CEO was fired at the end of March. The new CEO will take up the position in June. But presumably the company will remain in red until 2010.

4.2.12 Renault / Nissan

Signed on 27 March 1999, the Renault–Nissan Alliance is the first of its kind in the automotive industry, involving a Japanese and a French company, each with its own distinct corporate culture and brand identity, linked through cross-shareholding. Renault has a stake of 44.4 percent in the Japanese automaker Nissan, while Nissan in turn has a 15 percent stake in Renault. In 2007 the Renault–Nissan Alliance held 9.1% of the worldwide market with global sales of 6 100 438 passenger cars and light commercial vehicles (Nissan: 3 431 398 unit, Renault: 2 669 040 unit), placing the alliance fourth after GM, Toyota, and Ford.

6 Light commercial vehicle (LCV) is the term for goods vehicle up to 3.5 tons. Pick-up trucks and vans qualify to this category, both commercially based or passenger car derived.
Since the Alliance was established, Nissan has improved its finances. Renault has reinforced its performance and has accelerated its international development. **The two parties combine expertise and share their technology.** Nissan pilots the development of new gasoline engines while Renault focuses on diesel engines. The alliance announced a partnership with an Indian manufacturer, to develop an ultralow-cost vehicle by 2010 and a **joint venture with the Russian automaker AvtoVAZ** in which the French firm acquired a 25% stake. Renault will bring modern technology and know-how, while it will get access to capacity and AvtoVAZ dealer network that it would otherwise have had to build expensively for itself.

**4.2.13 Fiat**

The Italy based Fiat Group was founded in 1899 initially with the aim of focusing on industrial production of cars, industrial and agricultural vehicles. Over time it has diversified into many other fields, and now it has **activities in a wide range of sectors in industry and financial services.** It is Italy's largest industrial concern.

The Fiat Group Automobiles include: Abarth, Alfa Romeo Automobiles, Fiat Automobiles, Fiat Professional, Lancia Automobiles and Ferrari S.p.A. The **European Car of the Year prize** has been awarded twelve times to the Fiat Group in the past 40 years, more than any other manufacturer.

**Fiat was a key player in developing motor industries for a number of countries** from the 1950s. Fiat automobiles have been made in Poland since 1920. In 1955 it agreed with the Yugoslav carmaker Zastava to assemble Fiats for Eastern Europe. In 1966, Fiat helped U.S.S.R. to build a new car factory (AvtoVAZ). The Spanish SEAT was also set up with Fiat assistance, producing Fiat models under its own brand name until 1981. The largest concern outside Italy is in Brazil, but it has been producing cars in Argentina, India, Bulgaria, Turkey, South-Africa, Egypt and even in Ethiopia and Sri Lanka.

The option of **Chrysler acquisition** is a very good opportunity for Fiat to enter the North-American market that it abandoned 20 years ago. Furthermore in case of Chrysler failure Fiat would be in the position to pick up the assets. It **can make the Italian carmaker one of the winners in the crisis.**
**Figure 10:** Global automobile production of the largest carmakers in 2007 (in thousand units)

Table 2: Global automobile production of the largest carmakers in 2007

<table>
<thead>
<tr>
<th>Rank</th>
<th>Group</th>
<th>Total automobile production (1000 units)</th>
<th>Cars (1000 units)</th>
<th>Light comm. vehicles (1000 units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GM</td>
<td>9,315,095</td>
<td>6,259,520</td>
<td>3,055,575</td>
</tr>
<tr>
<td>2</td>
<td>Toyota</td>
<td>8,319,807</td>
<td>7,211,474</td>
<td>1,108,333</td>
</tr>
<tr>
<td>3</td>
<td>Volkswagen</td>
<td>6,220,781</td>
<td>5,964,004</td>
<td>256,777</td>
</tr>
<tr>
<td>4</td>
<td>Ford</td>
<td>6,151,910</td>
<td>3,565,626</td>
<td>2,586,284</td>
</tr>
<tr>
<td>5</td>
<td>Renault-Nissan</td>
<td>5,961,587</td>
<td>4,926,857</td>
<td>1,034,730</td>
</tr>
<tr>
<td>6</td>
<td>Honda</td>
<td>3,911,814</td>
<td>3,868,546</td>
<td>43,268</td>
</tr>
<tr>
<td>7</td>
<td>Hyundai-Kia</td>
<td>3,726,417</td>
<td>3,578,374</td>
<td>148,043</td>
</tr>
<tr>
<td>8</td>
<td>PSA</td>
<td>3,457,385</td>
<td>3,024,863</td>
<td>432,522</td>
</tr>
<tr>
<td>9</td>
<td>Suzuki</td>
<td>2,596,316</td>
<td>2,284,139</td>
<td>312,177</td>
</tr>
<tr>
<td>10</td>
<td>Fiat</td>
<td>2,527,293</td>
<td>1,990,715</td>
<td>536,578</td>
</tr>
<tr>
<td>11</td>
<td>Chrysler</td>
<td>2,534,124</td>
<td>754,855</td>
<td>1,779,269</td>
</tr>
<tr>
<td>12</td>
<td>Daimler</td>
<td>1,592,576</td>
<td>1,335,226</td>
<td>257,350</td>
</tr>
<tr>
<td>13</td>
<td>BMW</td>
<td>1,541,503</td>
<td>1,541,503</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: ‘World ranking of manufacturers’, OICA correspondent survey, 2007*
5. What strategy can make a car manufacturer win?

Probably all OEM has its own answer for this question, but essentially these have to focus on the same issues. On the basis of the industry analysis, trend analysis, the outlined consolidation process and value chain analysis in the previous chapters I will give my own answer to this question.

I defined **three behaviours that have to be characteristic of a successful independent global carmaker**. These are the following:

**5.1 Focus on the future**

In the past growth period the main priority area for investment was the **enhancement of production capacity**. All automobile manufacturers were striving for economy of scale that refers to the efficiency gained in the production or distribution process through increased size of the operating unit. It was the critical success factor of the past few years, and this generated an overcapacity that resulted in price war.

Now the first priority to escape from the present critical situation is to secure profits and cash flow, and this requires an **optimization of the swollen systems**. Car manufacturer have to review their production, sales, development and back-office sections, and downsize them. They have to consider what can they manufacture in-house and what special processes should be outsourced. At the same time, it is important to secure flexibility for the future growth opportunity.

**The Profit Pools method** of Orit Gadiesh and James L. Gilbert can be used to help managers in understanding the profit structure of their business. They describe a framework for analyzing how profits are distributed among the activities that form an industry's value chain. Profit pool can be defined as any point along the value chain. In the car industry this can be car manufacturers, new car dealers, used car dealers, insurance, leasing, financing, repair, etc.

Mapping a profit pool involves four steps: defining the boundaries of the pool, estimating the pool's overall size, estimating the size of each value-chain activity in the pool, and checking the calculations. It will help managers to see the various forces that are determining the distribution of profit, they will get a view on the
underlying structure of the industry, and it will help them to focus on profit, rather than on revenue growth. And by identifying the profit pools in the industry they can find which activities are generating disproportionately large or small shares of profits. For example, new car dealers have consistently posted the lowest margins (below 5%) whereas leasing has proved to be the „deepest pool“ with margin over 20%. And this shows that for carmakers it is worth to put more stress on financial transactions.

Although nearly all OEMs are in red currently, but the investments toward future growth are really required. Whether or not they can survive depends on how carefully they can build a scenario for the future and, based on that, how effectively they can invest in the priority areas. If only a limited effect is possible from individual companies, a governmental aid for strategic investment might be necessary.

In the current transition it seems to be essential to invest in technological development that can ensure the future. As the world is moving into the trend of electric cars, it makes sense to invest in rechargeable battery technologies that offer a wide range of application, and could be the core of the next motorized society. (Eiji Kawahara, 2009)

5.2 Effective customization

Long gone is the homogeneous market that Henry Ford conquered with his mass production of one model of car. Consumer diversity is increasing rapidly and firms have to differentiate their products relative to competitors. And this is where market segmentation comes in.

A true market segment meets all of the following criteria: it is distinct from other segments (heterogen), it is homogeneous within the segment; it is stable over time; it is measurable and identifiable; it can be reached by a market intervention (accessible); it responds similarly to market incentives (actionable); it is large enough to be profitable.

There are numerous ways in which the automobile industry can be segmented, but it is usual to divide it into some distinct product groups according to a combination of size and price. For instance on the European market for passenger cars we can identify nine segments.
Table 3: Classification of passenger cars in Europe

<table>
<thead>
<tr>
<th>Segment</th>
<th>Consumer/Product characteristics</th>
<th>Targeting example</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mini</td>
<td>Compact, short journeys</td>
<td>Renault Twingo, Smart</td>
</tr>
<tr>
<td>2. Small</td>
<td>Small size, small shopping</td>
<td>Ford Fiesta, Suzuki Swift</td>
</tr>
<tr>
<td>3. Lower-medium</td>
<td>Lower income, shopping</td>
<td>Toyota Corolla, Opel Astra</td>
</tr>
<tr>
<td>4. Upper-medium</td>
<td>Medium income, some luxury</td>
<td>BMW 3-Series, Mercedes C-Class</td>
</tr>
<tr>
<td>5. Executive</td>
<td>Business consumers, comfort</td>
<td>Mercedes E-Class, Audi A6</td>
</tr>
<tr>
<td>6. Luxury</td>
<td>Space, high comfort, luxury</td>
<td>Audi A8, BMW 7-Series</td>
</tr>
<tr>
<td>7. Sports</td>
<td>High comfort, attention seekers</td>
<td>Porsche 911, Vauxhall Tigra</td>
</tr>
<tr>
<td>8. 4x4s (Four-wheel drive)</td>
<td>Performance, space, adventure</td>
<td>Land Rover, Ford Escape</td>
</tr>
<tr>
<td>9. MPV (Multi-purpose vehicles)</td>
<td>Medium income, comfort, large shopping</td>
<td>VW Touran, Fiat Idea</td>
</tr>
</tbody>
</table>

Source: Based on Wikipedia ‘Car classification’ article, 2008, (www.wikipedia.org)

After the market has been separated into its segments, the marketer will select a segment or series of segments and target it/them.

In case of car industry it is preferable to sell more but limited number of product lines in many countries as if one of its product lines falls out of fashion or one country has an economic slowdown, the company will, most likely, be able to continue trading. Furthermore it can be more efficient to ship a range of products to any given location than to ship a single model. However developing many kind of products is costly and insufficient after a certain number of models.

Companies such as Mercedes and BMW have had historically a very little interest in the segment small and lower medium cars. But these segments dominate the European market with 30 percent market share each, so they can’t ignore them any more. They had to plan and introduce lower-class models too in order to gain a bigger market share.

On the other hand car manufacturers have to pay a deep attention to the different customer segments and their specific requirements. They must carefully position...
their vehicles and ruling out the possibility of cannibalisation by giving up the unnecessary brands.

5.3 Ability and willingness to cooperation

There is a strong expectation towards the carmakers to provide fuel-efficient cars with much lower CO2 emission in a short time. Internationally, the most prominent early step in the direction of a low-carbon economy was the signing of the Kyoto Protocol, under which most industrialized countries committed to reduce their collective emissions of greenhouse gases by 5.2% compared to the year 1990 over the period of 2008-2012. **Global warming requires a worldwide collaboration.** In this project all carmakers have to concentrate forces to bring the solutions.

In addition the car manufacturing process got to that degree of **complexity** where it is inevitable the cooperation between competitors. The past isolation and lack of standardization resulted in the situation where neither OEMs nor part suppliers or dealers could maintain their profitability.

**Both vertical and horizontal integration process** within the automobile industry is going to **get to its maximum level** soon. Every major car manufacturer designs its own engines and drive-trains, assembles the parts, manages a network of dealers and has its own finance companies. But this level of vertical integration is not sustainable on long distance, as it kills research and absorbs the profit. The most common forms of horizontal integration are mergers and acquisitions, but there were several joint ventures also in the past decades, though they usually did not last longed. Now the car makers have to focus on how to maintain these large systems. They have to open doors to their competitors and cooperate with them.

Entering into a strategic relationship with another firm for the purpose to improve capabilities is not uncommon within the automotive sector. But the concept of **strategic alliances** has become extremely pervasive in the 1980s. General

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7 Strategic alliance refers to the cooperation of two or more independent partners in certain predefined areas while, as a rule, they still compete in other areas. Duration and scope of the cooperation depend on the formulation of the agreement between the alliance partners.
objective of alliance is the competitive advantage for all parties involved. Specific objectives can be the easier, faster and more cost-efficient access to new markets, the cost reduction through economies of scale, the access to know-how in a time-saving way, reduction of risks and strengthening of competitiveness through focusing on core competencies. According to Fujimoto and Takeishi there are eight types of alliances within the automotive industry: equity investment, joint venture, provision of production technology, supply of complemented car, supply of components, joint R&D, joint manufacturing and joint marketing.

The capability of managing international alliances will be in the future one of the most important strategic success factors. But I have to stress that it requires healthy firms and is not a solution for ailing companies. The further precondition for success is the selection of right partner who is equal and culturally compatible. Furthermore the cooperation partners have to define clear and realistic initial expectations. And a crucial operative challenge is the harmonizing of interfaces between the partners.

This form of collaboration is much more flexible than mergers and acquisitions. It involves considerably less capital input and integration problems. However, coordination problems can arise. But this can be perceived as the first step of the learning process between the parties.
Summary

I started my thesis with a Porter’s five forces analysis that is suited for describing the industry structures and the way they change. It showed us that automobile industry is a very complex market with fixed players who fight a red battle for survival. In the second chapter I presented the currently ruling trends, such as green cars, globalization and the increasing role of emerging markets. After this I scrutinized the S-curve theory of A.T. Kearney consulting company, and the existing companies’ attempts at market growth through mergers and acquisitions. Furthermore I analyzed the changes of value chain within the industry.

Afterwards I came to the topic of industrial crisis with the description of different states’ protection instructions and the examination of the currently existing thirteen largest automobile manufacturer companies’ or corporations’ strength and weaknesses.

Summarizing all these information and analysis I defined three strategies that can help the carmakers to survive. These are the following: focusing on the future, effective customization of products and the ability and willingness to cooperation.

As a closure thought I would say that the success of a carmaker is much more lying on the management’s capability than on its size, history, origin or any other factors.
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