

# Strategies adopted by global automobile industry



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## 1.0 Executive summary

This report hopes to unveil some strategies used by the key players in the industry. The car industry was hard hit during the 1970 oil crisis and 2008-2010 automotive industry crisis. In recent research by OICA (Organisation International des Constructeurs d'Automobiles) shows a sharp drop in production. Therefore, it is important to find out how and what is being used or what strategies applied to overcome this setbacks.

According to a report by "Oliver Wyman" a leading management consulting firm in Germany, in Munich. oct. 2006.- the only way to rectify the present situation is to restructure their business models. But the increasing competition will make it tough for the car makers. This report will examine how they will be taking advantage of the synergy of Mergers and Acquisition. By Operating one's business in adopting the Corporate Social Responsibility principles. Find way to achieve a significant Cost Leadership in a product with Differentiation through the lean production system.

As well as their consolidation of the suppliers , purchasing , production, sales and services departments, with the view of developing better, clean, fuel efficient engine technologies for the future .

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| 1. 1 Introduction                                       |    |

Globalization has brought about the convergence of the best practices in production system from both world . For example , in the 1990s there were many mergers and acquisitions , like Volvo bought by Ford , Daimler- Benz' takeover Chrysler , and Renault purchased 36. 8% of Nissan. These practices also include the supply chain management and the lean production line. Evidently, there seem to be a complex process of hybridization in these relationship. In view of the global economic and political uncertainty, currency movements and fluctuations in raw materials and oil prices , most automotive manufacturer will have to strengthen its corporate structure.

Consolidation of the car industry will continue, this in fact is part of the globalization by the automobile industry. They have created a concentrated firm structure, whereby the big car manufacturer will control the business and exert extraordinary power the small suppliers. At the same time moved the part production, sub-assembly and final assembly lines close to the final market, whether regional or local. This study will examine the global strategies adopted by other car makers and Honda Motor in the context of

mergers and acquisitions, managerial dichotomies and how relevant is corporate social responsibilities to the car maker and their organizational performances.

## 1. 2 Corporate Strategy - and - Managerial Dichotomies.

Corporate strategy is the responsibility of the top management team, they will define the scope of the firm's interest in the car industry and its market. Whereas, the business strategy is formulated and implemented by primary the individual business unit, they will decide as to how best to compete with other players.

Honda which is widely recognized and appreciated brand has positional advantage over other firms in the automobile industry. The reason is simple , Honda has a strong and effective corporate strategy. Which support its competitive strategies extended to distinctive capability and reputation by specializing in engine technologies. For example, to name a few areas which reflect Honda's success in implementing their corporate and business strategies. Its consistency in their employment relation, production organization, and their profit strategy. They promote individualism , youth, equality and respect for age and status. One of the strategy is to find ways to maintain and increase its capacity to innovate by seeking two solutions to the same problem , its production line are converted, so that its able to produce other model as well. Rover decided to collaborate with Honda in order to secure new and better designs and increase engineering capabilities, however Honda was looking at an offensive side, as Rover provide a bridge into the European market- its profit strategy. When Mr.

Nobuhiko Kawamoto became president of Honda in 1991, he continued to uphold the previous president's code of practice and also injected his own strong influence of individual responsibility into the existing operation. The corporate strategies issued from the board of directors actually amplify the company's vision, and mission statement. The key elements being - Obligations to stakeholders, scope of business, the sources of competitive advantages and building a strong future.

Problems in management and production decision making. The Western Management System uses authoritarian style of leadership, leader has the authority over his subordinates. On the other side, the Japanese Management System, the leader and some selected subordinates are involved in the process of decision making. But the leader still has the right to make the final decision. That is to say that Kawamoto preferred the people to think as "collective group versus individual" and "vertical structure versus horizontal structure". Reconciliation in this dichotomous pair means that the two poles of action are somehow made to be compatible to each other. In simple words, this reconciliation is a way to incorporate the best of two worlds.

In the book "Strategy Safari" by Henry Mintzberg, Ahlstrand and Lampel (2009) 2nd it gives a clear distinction the strategies used in Honda are in fact called the Emergent Strategy as in: New model for the customer's demands against fuel efficient and eco friendly models. Then the Deliberate Strategy as in the collective decision-making against individual responsibilities. To illustrate Honda's approach in reconciling dichotomies, let's look at "right first time" versus "build in quality". Operation Management is a process

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with deliberate change. The Right First Time principle state that the outcome of a process, in this a production line should be error-free, so that the tasks that follow are not burdened with having to correct any mistakes made earlier, as that would cause delays and increase production cost and lost of opportunities of sales and customers. It focus on operation efficiency by wasting no time, resources or money. When this is repeated all the way down the production line, the over all result along the transformation line/link must be Error-Free. Therefore it emphasized on process-related capabilities.

The Build In Quality principle pay more attention on ensuring the effectiveness of the performance on all the production lines. This method of measurement is related to the customer-defined standard of performance and emphasizes more on product- related capacities. This apparent dichotomies is in fact not so much of a dichotomies , as it be seen in Honda it has shown that both process or manufacturing strategies not divergent in nature , rather convergent and complementary, when applied , Honda it has the best of both world, together, the products will be at low cost, on time delivery , high quality, with superior features , thus , this strategy place customer first.

1. 3 Synergies for new technology, products and market — mergers & acquisitions.

The global automotive industry is experiencing a surge in mergers and acquisitions in the next few years , mainly due to corporate debts and insolvency casualties. In Europe and US , many automaker have over

produced with high over-capacity , they need to focus in high-technology, new innovations and fuel efficient vehicles. (KPMG, 2010 ) The sales of passenger and commercial vehicle has drop 1. 6 % and 38. 6 % respectively from 2007 to 2008 in the US, and in Europe , EU vice president Gunter Verheugen stated that 20 % of Europe's automotive companies are in danger of collapsing. Toyota one of the largest auto manufacturer has estimated its operating loss for the year ending 31 march 2009 to be US \$ 4. 6 billion between 2009 to 2010 . The car industry is likely to retrench in order to survive, and to achieve the inter-dependent objectives of improving their core activities and raising very badly needed funds from disposals. These economic down turn has created a number of serious challenges, such as shifted in technology and consumer preferences and under usage of production lines. One way to overcome this stumbling blocks , is to form Mergers and Acquisitions. or Joint Ventures. For example, looking back, :

Volvo bought by Ford.....1999

Daimler-Benz's takeover Chrysler.... 2000

Renault purchased 36. 8% of Nissan..... 1999

GM join with Fiat.....2000

GM and DaimlerChrysler to produce Hybrid cars.....2000

However , not all mergers are successful, because the crucial integration phase, both parties have to agreed on how the new entity should run. The processes and the cultural differences to be mooted. A typical example is Ford Motor, as reported in Fortune , May 2009, when the new CEO Mr. Alan

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Mullally arrived in 2006 the company was on the verge of collapse. It lost \$12.6 billion in 2006 and \$2.7 billions in 2007. In this situation, the CEO issued instructions as follow : 1. To borrow \$23.6 billions against Ford's assets, with the cash meant that Ford need not depend on the government loans. 2. By 2010, Ford will start selling small fuel efficient cars in US that were developed in Europe. 3. To dispose off the two entities, Jaguar and Land Rover, then focus on Ford brand. 4. To sell off Volvo as soon as possible. ( sold to Geely- China 2010 ). Mr. Mulally, believed that his strategy will work and by 2011, The Ford North American operations as well as the entire company set up will be profitable. Mulally also explained, " now everyone has to know the plan, its status, and areas that need special attention." This is an example of too much debt and risk of bankruptcy.( Fortune, may 2009 )

Over a period of time most makers formed strategic alliances to explore the possibilities of jointly forming strategic arm in research and development to create new synergy to produce new components, engines and other electronic parts. These alliances will allow the production and investment risk be shared, at the same time, the partners will be able to have access to new technology, methods of manufacturing , management practices and global market share. Examples of strategic alliances between the manufacturers from different countries.:

Japanese - American

Japanese - European

American - European



American & American

European & European

Some of the benefits that may be able to be harvested are , importing or exchange technology for Manufacturing - Innovation. Acquire labor and managerial skills through the introduction of the famous just in time (JIT)delivery system the lean production system. Restructuring deliver and supply system and redesigning parts to enhance efficiency in production . (CSM)

#### 1. 4 Corporate Social Responsibilities - is a necessity

The growing pressure is on for all business to adopt the CSR principles, as in essence, by operating ones business ethically and responsibly , the chances of success is greater. Business that well managed corporate social responsibility, improved compliance and reputation and relationship are known to have increase shareholder value and profitability . When business or corporation include the CSR strategies , it will also enhance its attractiveness as an employer. The attitudes are changing , in US and Europe authorities introduced tough new ceiling on pollution and fuel efficiency standards . All major car maker now recognized this trend. Therefore the sale of Hybrid ( petrol- electric ) cars are growing fast. Bill Ford said " the society is now clamoring for this approach."

There are some barrier to remove , what seem to be lacking is imagination and intrinsic motivation on the part of the corporation and executives. ( HBR march 2002 ). This is by no means an impossible obstacle. What is needed is

some support from other business leaders who have taken bold initiatives.

For example In Scandinavian countries, the consumers have pressed for more environmentally friendly paper products such as toilet tissue and disposable diapers. This “ pressure” have convinced the Scandinavian paper producer to experiment on the use of their new innovation in using unbleached pulp in their products.

One of the most publicized CSR initiative is by Prudential Insurance, in 1990 they introduced the viatical settlement- contract that allow people with AIDs to tap into the death benefits in their life insurance polices to pay for medical and other related expenses. The move have generated a lot of good will , such that other insurers , began to offer this Viatical Settlement in their polices. Another example which the regulators in British Columbia, try to impose and compel corporation to increase their production of socially responsible behavior, by increasing their cost and administration burdens on their business so much so the business simply refuse to accept their value. This have unintentionally resulted the shrinking in the civil foundation, by causing a dramatic slowdown in economic progress. As the result, this Canadian province has to suffer slow improvement of

living standards , poor working condition and income. This is hardly the type of environment out come the regulators sought. (HBR march 2002). The corporate Social Responsibilities visions and policies of some automakers. Toyota - CSR initiatives. Sustainability in three areas. The sustainability in the Three areas concepts is intended as a means of strengthening Toyota's contribution to wards the sustainability in the Technology, Manufacturing and Social contribution. Specially in the area of sustainable mobility,

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sustainable plant Initiatives and contributing towards the development of sustainable society through non- profit business or non- business activities. Today Toyota is using The global vision 2020-” Open the frontier of tomorrow ” (2007). It simply means that re-examining the harmonious balance with nature and industry. Between the cycles of the industry and the cycle of the nature. Toyota ‘ s mission is to face the challenges in these new era.(www. toyota. com ) Honda tackles the environment problems in a different way. Honda ‘ s products has been sold all over the world to share its joy with them. While making every effort to solve the environment problems has on the global scene at the same time fulfilling the responsibilities. For examples;

## **Global/regional environment problems. Counter measures.**

### **Global problem**

The increase in the use of higher fuel efficiency cars fossil fuel has resulted in by introduction of i-series the increase of temperature engines. And use clean thereby changes the ecosystem energy technologies and causes water and wind damages

### **Waste problems**

Leaching of harmful substance from enforce zero land fill landfill sites and illegal dumping of waste due to high cost of proper site. At least 5 million vehicle are being find new methods of discarded as end -of- life vehicles recycling and create new disassembling lines use of CFC- 12 destroy the ozone remove or destroy CFC-12 layer which protect us. In all vehicles.

Honda will continue to provide products that incorporate its safety and environmental technologies, striving to earn the trust from the society by, <https://assignbuster.com/strategies-adopted-by-global-automobile-industry/>

among other things undertaking activities for corporate governance, compliance, and risk management and contributing to the society. (www.honda.com )

### 1. 5 Honda Motor Company, Is it a Japanese firm . ?

Mr. Soichiro Honda he founded the Company in 1964, one of the largest manufacturer of motorcycle. The first Headquarter was in Tokyo. However over the years , he managed to setup

assembly plants all over the world for the production of motorcycles and automobiles. These plants are in Brazil , Belgium, Japan, England, Canada, Pakistan, China, United State, Turkey, Thailand, Indonesia and New Zealand. With all these manufacturing capacity all over the world, mainly with western partners. In a survey by a leading organization, EPA shows that the most fuel efficient cars produced between 1984 2010 are from HONDA.

Honda Insight ,.. 53mpg (2000-2006)

Honda Civic Coupe HF, .. 46mpg (1986-1987)

Honda Civic Hatchback VX, 43mpg (1994-1995)

Honda Civic Hybrid, 42mpg (2006)

Honda Insight, (revised) 41mpg..(2010)

The synergy between these western and Japanese manufacturers are so profound. It clearly show that the products and cars made are the evidence of close co-operation of the two models , the Western model and the

Japanese model which are consciously and deliberately integrated in a success story. . In short, it's a firm that is managed with the right Synergy and makes money. In comparing the two management models , the Western and the Japanese , I preferred the Japanese model as the system seem to be more human-centered. When approach to work, defining operation standard it is less rigid, it is flexible and the employees rotate task. Staff are allow to change post, departments, work with different car models upon request. The Japanese culture is employee focused which is a good strategy , after all employee is the backbone of the company.

#### 1. 6 Conclusion - strategies and the future .

The global car industry is at the moment characterized by price wars, fierce and intense competition, worldwide every car maker, their plants are over capacity, declining demand for cars in the mature US and European markets . with new technology and innovations continues to drive changes in process and products. Already, Toyota and other Japanese car makers have launch full scale assault on the European market which was long dominated by the US car makers. The US and European car makers are facing serious challenges from Asian and Japanese competitors in term of cost and efficiency.

In Ford Motor, they have made arrangement, using all the available resources and strategies to address the ongoing challenges of improving efficiency and manufacturing excellence with the rapid changes in product and process technologies. In 2003, Bill Ford Jr, says in the shareholder's letter - in the Annual Report " Our Goal is to be the best automotive

company in the world." He also say that " This is everything, Its heritage, Its their children's future ..... Failure is not an option. " ( strategic management in action-3rd. by Mary Coulter 2005 ) what Bill Ford said is the echo of the war cry by the rest of the major automotive manufacturer, however, the result is left to be seen.

Honda is no ordinary car manufacturer, one of the critical feature in the Japanese Corporation structure is the Keiretsu system. The Horizontal Keiretsu - inter-connected system of banks, industrial and trading partners. The Vertical Keiretsu - very close collaborative sub -contracting network . Honda somehow managed to elude this system in Japan and become a world class car manufacturer. Being one of the most admired company , has many strengths, its products have earn a good reputation of high quality from motorcycles to cars. Has won many awards for being the best initial quality and customer satisfaction product. Honda cars are generally fuel efficient and reliable. Their research and development division has produced very competitive and innovative cars, such as :

The Honda Civic GX runs on compressed natural gas , and was rated the cleanest-burning internal combustion engine in the world - 2001

Honda Insight - the first commercial hybrid car - launched 1999

Honda Brazilian launched the flexible fuel Honda civic and Honda fit - 2006

Honda Motor Japan, produced its first FCX Clarity-a hybrid hydrogen fuel cell vehicle. It combine oxygen and hydrogen from air to generate electricity to

drive the car electric motor. No pollutant is emitted, its by products are only eater and heat.

There are of some weaknesses , their car are not offensive and bland in styling. Their selling prices are fairly high for non-luxury vehicles. Not very much to offer in their truck-line division. Some time their cars seem to be under powered. A research paper by Academic mind(2004) , suggested that there is opportunities to make good profit provided Honda could continue make vehicles with low emission or powered by alternative sources. Honda is a very successful car manufacturer, from innovation , power trains, and improved styling, to management and production system. Any threat from other car-makers is obviously quite unlikely , let alone try to bring Honda down.

## **The future**

Evidently , Technology in the driving force in the future of the car industry , a recent study group, the European green lobby group Transport and Environment (T&E) discovered that three quarters of the 20 major brands sold in E U in 2005, had failed to meet the requirement of their own voluntary target of 140g/km in fuel efficiency since 1997. They are required to comply completely by 2008. This fact has prompted the EU authority to propose a new statutory limit of 130g/km for all new cars by 2012.

In Europe , cars from , Peugeot, Ford, Renault, Citroen and Fiat are the brands that meets the 140g/km target and with little difficulties to reach 130g/km by 2012. Honda the auto giant has abandon plans to built factory for mini -vehicle and concentrate on its growing portfolio of hybrid cars. The

new chief executive Mr. Takanobu Ito has said , he wants to speed up the production of the Hybrid cars as environmental regulations tighten around the world . Honda will continuing to battle with Toyota for the control of a bigger share of the fast expanding Hybrid car market. Honda was the first car maker to introduce the gasoline- electric hybrid car-Insight, the new Honda CR-Z hybrid, then a smaller Honda Fit-model. They also planning to export three models of the hybrid cars to China in two years time.

( ClimateChangeCorp. com oct. 2007 )

In early January 2010, New Delhi, India , set the stage for the Automotive giants to showcase their strategy and models to the world in the high growth fuel efficient small car market. Then small car and manufacturing and exporting hub are India, Brazil, Japan, Thailand and China. Toyota - Bangalore-based Toyota Kiriloskar Motors (TKM) show-off its small concept car-Etios, it is available both in hatchback and sedan version, the managing director Mr. Hiroshi Nakagawa at TKM said “ the car is not a copy of any European model . this is a newly developed car and the world has seen it first in India, this marked the new era for Toyota in India. Volkswagen (VW) unveil the Polo1. 2litre hatchback , which expect to hit the road in few months. Jochem Heizmann, member of the board of management at Volkswagen AG said ” Polo will give us the volumes to make VW a mass market player. Honda Seil Cars India (HSCI) -unveil the concept car, code name 2CV could run on a petrol engine 1. 2litre , it is a five- seater and five door car.

General motors , launched the new 1. 2litre ” Beat” from its Chevrolet stable. And Ford to lunch the ” Figo “. While the incumbent player in India, Maruti <https://assignbuster.com/strategies-adopted-by-global-automobile-industry/>



Suzuki and Hyundai motors which have a 72% of the car market will be working on a new small car model plus re-engineering the Alto . ” We will do everything to defend our 50% market share by increasing the volume sale dramatically ” said Mr. Shinzo Nakanishi, the MD of Maruti Suzuki. Tata Motors’ chairman Mr. Ratan Tata said ” We have ignited in people’s mind that India is a market for small car. It is heartening , therefore, to see small car is the focus for global brands. All effort have been made to add capacity for NANO in the domestic market, the demand has exceeded the supply. We are recognizing the demand not only in the regional developing market but also in the developed market.”

( as reported by Business-standard. com/india/news/global-compact-car. sept’2010 )

From this latest car showcase, it become obvious that the manufacturers are orienting themselves towards the emerging trend and market the they operate in . they need to optimize their operations, products, sales, development, and other areas may some need to downsize. Like parts and components may need to manufactured in house or to be out sourced . all these are meant to secure flexibility for the future growth and opportunities.