Case study of skoda

Education

I. Introduction

The name “ Skoda” in the Czech language means “ A Shame”. It is the first car ever produced in the Eastern Europe. It is a small business that eventually became Skoda Automobile Company. It was formed in 1895 when Vaclac Laurin, a mechanic and Vaclac clement a bookseller, joined together to manufacture their first ever produced bicycle which is slavia in the town of Mlada Boleslav Czechoslovakia. Four years after, the company began to use motorcycle parts in producing motorcycle vehicles. The company used in diversification strategies specifically the related diversification which means adding new but related products or services. Skoda auto first produced bicycles and then motor vehicles until they produce cars which has been made then motor vehicles until they produce cars which has been made them won numerous awards for producing quality automobile products and made them , as the largest num of employer in the Czech Republic and open opportunities for employers. When bicycles are replaced by automobiles in many countries, cars were out of reach of the Chinese.

As income . increases and tap tariffs on imported cars began to fall of Beijing’s accession to the world trade organization models began to flood the market and domestic producers were formed to cut their prices. The government was encouraging the merge of many of these firms to achieve economies of scale. Industry projections suggested that the strongest potential growth in automobile sales would be in the countries of Asia, South America, Eastern Europe, and Africa rather than the countries or economies of Western Europe, North America and Japan. Mergers of Automobile companies are being considered in China, and in February of 2007, Daimler

Chrysler AG knowledge that it might have to find a partner due to the depth the crisis.

The list of potential partners includer Renault SA and Nissan Motor Company. Nissan is interested in a North American Partner, Ford Motor Company could rely on other companies for some manufacturing or others tasks, Toyota suggested in 2006 that it is interested in further conservation with ford in 2006, General motors considered an alliance with Renault and Nissan before deciding to remain as they are. Unfortunately many of the cross- border mergers and joint ventures in the industry in the past had difficult time surviving. For the acquisition, the Automobile Companies must have easily created their own new models. In making plant decisions, Companies consider the following factors: Labor costs, Energy costs, access to work force that has a right skills, access to the necessary infrastructure(roads, railroads, favorable political climate), and closeness to important global markets. Skoda plantation in the Czech Republic was a good selection for Volkswagen for those reasons. Volkswagen is the Europe’s largest car maker, In 2007 Volkswagen however ha s high productions with inflated sticker prices, a deteriorating quality. Read also IFE matrix of Coca-Cola

SKODA AUTO HISTORY

A small business that eventually became Skoda Auto was formed 1895 when Vaclac Laurin, a mechanic and Vaclac Klement, a bookseller, joined together to manufacture the Slavia bicycle in the town of Mlada Boleslav Czechslovakia. In 1901, the company began using its motorcycle parts in the production of motor vehicles with four wheels and a two cylinder engine.

In 1939, when the Nazis marched into Czechslovakia, Hitler grabbed Skoda Auto and made it an armaments factory that was a part of the Herman-Goering. As soon as World War II was over, the company nationalized by the Soviets who had taken over the country and the renamed it AZNP Skoda. Under the Soviets, Skoda gained a monopoly status as the only Czech passenger car manufacturer and this is when the jokes really began as the quality of the automobile began to slide.

After 1960, Skoda began producing cars for the mass market that had a little style and after looked like a metal box. On April 16, 1991, Skoda became the fourth brand of the Volkswagen Group after VW, Audi and Seat (the Spanish subsidiary). Volkswagen bought a 70% interest in the company, and Czech government retained 30% interest. In 2000, Volkswagen bought out the remaining 30% interest from the Czech government.

Skoda progressed so well improving the efficiency and attractiveness of its cars that in 2006, Skoda brand vehicles received the following honors: 1st place " Car of the Year" in Estonia, Finland and Bulgaria; 1st place " Auto Trophy" in the Minivan category for Skoda Roomster; 1st place " FamilyCar of the Year" for Skoda Roomster in Sweden and Belgium; and " Red Dot" design award for Skoda Octavia Combi.

I. Vision

To have the biggest market share in Europe by looking for extraordinary solutions those satisfy extraordinarily demanding customers.

Mission

Is to provide quality sales, service and transportation needs for our customers. This is and will be accomplished through a dedicated team of employees whose number one goal is customer satisfaction along with a management team whoseresponsibilityis to ensure employee satisfaction, and customer enthusiasm. Three basic values of Skoda brand are:

Intelligence - We continuously seek innovative technical solutions and new ways in which to care for and approach the customers that are most important for us. Our conduct toward the customers is above board, and werespecttheir desire and needs.

Attractiveness - We develop automobiles that are aesthetically and technically of high standard and always continuous an attractive offer for our customers not only in terms of design or technical parameters but also the wide range offered services

Dedication - We are following the steps of founders our company Messrs. Laurinand Klement. We are enthusiastically working on the further development of our vehicles; we identify ourselves with our products.

II. Internal Assessment

CPM- COMPETITIVE PROFILE MATRIX

Critical

Success

Factors

Weigh

ted

Rating

Weigh

ted

Rating

Weigh

ted

Rating

Weigh

ted

Rating

weighted

Price

0. 12

4

. 48

2

. 24

3

. 36

2

. 24

Functional position

0. 15

3

. 45

4

. 60

3

. 45

4

. 60

Advertising

0. 09

2

. 18

3

. 27

2

. 18

4

. 36

Innovation

0. 22

2

. 44

3

. 66

2

. 44

4

. 88

Market share

0. 22

2	
.	44
4	
.	88
2	
.	44
4	
.	88
Management	
0.	10
3	
.	30
3	
.	30
3	
.	30
3	
.	30
Global	Expansion
0.	10
3	
.	30
4	
.	40
3	
.	30

4

. 40

Total

1. 00

2. 59

3. 35

2. 47

3. 66

Financial Ratio Analysis 12/ 2006

Growth Rate %

Skoda

Industry

Sales(Qtr versus yr. ago qtr)

1. 12

9. 40

Net Income(YTD vs. YTD) Liquidity Ratio

1. 48

11. 80

Current Ratios

Quick Ratio

Efficiency Ratio

11. 48

1. 13

2. 10

0. 90

Assets to Sales

Profitability Ratios

0. 52

11. 0

Returns to Sales

Returns to Assets

Debt Ratio

0. 055

0. 11

3. 2

6. 4

Total Liabilities

1. 80

277. 2

Internal Audit

STRENGTH’S

WEAKNESSES

1. Skoda won a numerous awards for producing a quality automobile 1. Poor brand name due to Skoda relates to Eastern Europe origins that in the past the cars had an image of poor vehicle quality and design 2. Skoda implements low cost country sourcing strategy

2. Skoda total market share is 1. 7%

3. Skoda is the largest employer in the Czech Republic

3. Skoda has problems with their assembly plants outside of the Czech Republic. 4. Total assets are gradually increasing

5. Skoda achieves highest grow in 2006 in Eastern Europe, Num. 1 car maker in Central Europe and grew its Western Europe Market share to 2. 1

Internal Factor Evaluation (IFE) Matrix

Key Internal Factors

Weight

Rating

Weighted score

Strengths

1.

0. 15

3

0. 45

2.

0. 15

3

0. 45

3.

0. 08

3

0. 24

4.

0. 10

3	
0.	30
5.	
0.	18
3	
0.	72
Weaknesses	
1.	
0.	18
1	
0.	18
2.	
0.	08
2	
0.	16
3.	
0.	08
1	
0.	08
Total	
1. 00	
2. 58	

III. External Analysis

Global Industry Analysis

5. 2% growth in 2006- $1, 176. 5 Billion

65. 7 million units sold in 2006

66. 5% of sales are cars

US accounts for 38. 4% of Global market share

Europe accounts for 29. 3%

Industry leader is GM with 17. 3% Market share.

CAGR from 2002 to 2006 was 4. 7%

Projected CAGR of 4. 5% in period from 2006- 2011

Opportunities

Threats

1. One of the countries that have a strongest potential growth in automobile sales. 1. Insuffecient infrastructure because the soviets have never putmoneyinto such “ public goods” 2. Expansion of satisfied customers

2. lack of managerial skills

3. European manufactured cars are favorable in American markets. 3. increased of competitors in a monopolistically industry
4. First mover advantage to those automobile companies using alternative fuels. 4. higher wage rates in other countries that making it difficult for automobiles manufacturers to remain competitive

5. Highly crowded competitiveenvironment

External Environment Affecting the Organization

Political- Heavy taxes and tariffs in some countries make Skoda increase its automobile's price. Political sanctions, violenceandterrorismmake some limitation to expand globally in Asia market.

Economic- Fuel prices fluctuations affect the costs and that reflect on the price of automobiles, so that they may change the customer behavior toward some features of automobiles. Skoda could get benefits from the economic unions such as Central European Free- Trade Area (CEFTA) which includes; Poland, Hungary, Slovakia, Czech, Slovenia, Romania, and expand heavily there.

Social- Negative customer's perception toward Skoda brand because of bad images about automobiles industry in Eastern Europe countries. Increase in population in some countries make their governments tore design their traffic and make public transportation more useful will automobiles sales in these countries.

Technological- Should exploit evolution intechnologyto introduce new features and options to reposition Skoda brand and to get competitive advantage.

Environmental- Because ofpollutionproblem and its effect on Ozone, Skoda should develop and concentrate on manufacturing green environmental cars.

Legal- Green marketing laws and laws on environmental issues such as industrial pollution.

Currency Exchange- Legal registration Green marketing laws and laws on environmental issues such as industrial pollution.

Strategy Formulation

SWOT Matrix

STRENGTH’S

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S-O Strategies

W-O Strategies

1. Using price competitive advantage to concentrate on Russia Market

1. Increase market share by entering now growth market in Middle East, South East Asia and Africa. 2. Open assembly plant in Mexico to feeding North America market 2. Improving automobile quality by introducing innovative, electronic features, and design.

S-T Strategies

W-T Strategies

1. Increase marketing efforts make new repositioning

1. Offers 5 years/ 200, 000 kilometers warranty on all vehicles 2. Focus on producing middle and small engine cars

SPACE Matrix

Financial Strength

Rating

Environmental Stability

Rating

Return on Assets

2

Rate of Inflation

-3

Leverage

1

Net Income

2

Price Elasticity

-6

ROE

2

Competitive pressure

-6

Barriers to entry new market

-6

Average

1. 75

Average

-5

Y- axis

3. 25

Competitive Advantage

Rating

Industry Strength

Rating

Market Share

-1

Growth Potential

2

Product Quality

-2

Financial Stability

2

CustomerLoyalty

-1

Ease of Entry new markets

3

Control over other parties

-1

Resources Utilization

2

Technological Know- how

-1

Profit Potential

3

Average

1. 20

Average

2. 40

x- axis

1. 20

Directional Vector Point is : (1. 20- 3. 25)

Grand Strategy Matrix

The Boston Consulting (BCG) Matrix

Market Share Position

Industry Sales Growth

Rate

The IFE Total Weighted Score

Strong 3. 0- 3. 99 Medium 2. 0-2. 99 Low 1. 0- 1. 99

The EFE Total

Weighted

Score

The Quantitative Strategic Planning Matrix (QSPM)

Strategy I

Open New Assembling plant for Skoda cars in Mexico and make it as a base to enter American Market. Strategy II

Reposition of Brand name strategy increasing marketing efforts. Key Internal

Factors/ Weight

AS TAS

AS TAS

Strengths

Skoda won numerous awards for producing a quality automobile

2 0. 20

2 0. 20

Skoda implements low- cost country

The Quantitative Strategic Planning Matrix (QSPM)

Strategy 1

Open new assembling plant Skoda cars in Mexico and make it as a base to enter American market Strategy 2

Reposition of brand name strategy by increasing marketing efforts.

Key Internal Factors

Strenghts

Skoda won numerous awards producing a quality automobile.

Skoda implements low-cost country.

Sourcing Strategy

Skoda is the largest employer in the Czech Republic

Total assets are gradually increasing

FIVE FORCES ANALYSIS

The Threat of Entrants:

Eastern Europe countries that were in former Soviet Union attract many competitors who find in these countries new market, new customers, and cheap labors to reduce costs so the threat of entrants is very high.

Bargaining Power of Buyers:

The power of buyers is high because consumers – especially afterglobalizationhave many choices from which to select when they purchase a car

Bargaining power of suppliers:

Many automobile companies move toward Just-In-Time inventory system andthat pushes many suppliers to make their plants near these automobile companies, and some of these automobile companies made their own parts, so the power of supplier is very weak. Also read IFE matrix of Coca-Cola

Threat of Substitutes

The threat of substitute will be public transportation in big, crowded, and heavy populated countries, this substitute may be faster and cheaper than driving a car there, because people need to find a parking for their cars and usually it will be with fees.

Competitive Rivalry:

The automobile market is one of the most competitive markets in the world, in addition, there are many companies try to reduce their costs by moving to low-cost countries such as Eastern Europe and Asia countries, and try to find new market, so the competitive rivalry is high in the long run.

PESTEL Framework:

Heavy taxes and tariffs in some countries make Skoda increase its automobiles’ price. Political sanctions, violence and terrorism make some limitation to expand globally in Asia market.

Economic

Fuel Prices fluctuations affect the costs and that reflect on the price of automobiles, so that may change the customer behavior toward some features of automobiles. Skoda could get benefits from economic unions such as Central European Free-Trade Area (CEFTA) which includes: Poland, Hungary, Slovakia. Czech, Slovenia, Romania, and expand heavily there.

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Environmental

Because of pollution problem and its effect on Ozone, Skoda should develop and concentrate on manufacturing green environmental cars.

Legal

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Strategy Implementation

Financial

Cost

2 factories in China @ 30, 000, 000 each

1 factory in India @ 50, 0000, 000

Skoda is wholly owned by Volkswagen AG

No stock … so EPS/EBIT is not important

The Financing decision is to borrow money or fund from extensive cash reserves Czech national bank is listing a 1. 5% Prime rate making this a " no-brainer" ---Borrow the cash! Management

Skoda Automobile followed the German model of utilizing the members of the Board of Directors as the top management of the company. This is very different from the composition of the top management of large corporations in this country.

Boards in the United States are typically composed of more outside directors (those employed by a company other than the company on which they are serving as board members) than inside directors. Most U. S. institutional investors and watchdog groups would prefer a majority of outside directors because it is believed that they can be more objective in making decisions than inside directors.

IT

Skoda Auto employs a best of Breed Enterprise Resource Planning infrastructure, SAP/R3, allowing for digital optimization across the company. The difficulty comes in integrating other acquisitions and partner firms in the vale chain.

STRATEGY EVALUATION

Financial

Skoda Auto is wholly owned by Volkswagen. It shows that Skoda Auto don't have enough funds in operating their business. Management Skoda Auto Company is patronizing German model as a set of their standards. IT

Skoda Auto is highly productive when it comes to industrial technology and they give more focus to it.

Conclusion/ Recommendation

The Skodacase studyprovides us with an object lesson in how an organisation can transform itself. Until 1990, Skoda was able to prosper because it had a protected domestic market and a product which did not face competition. Once the Czech Republic opened its borders to free competition, there was no way the company could survive, without radical changes to its products and organisation: it would have been forced out of business. However, Skoda was fortunate to have good production facilities, a highly skilled labour force and the technical know-how which, coupled with a rapid injection of management expertise andfinancefrom Volkswagen, has enabled it to move ahead. Skoda continues to supply the major share of new cars at home in the Czech Republic, despite competition from imported marques. It also meets an important consumer requirement in other European markets for high quality cars at affordable prices. The Skoda Felicia has strengthened the Skoda image with existing customers and improved it amongst consumers as a whole and as a result has brought new customers to the Skoda brand. In particular there has been a marked expansion in the number of young people and females buying the car, as well as those in middle management positions. The old jokes about Skodas are rapidly fading into “ folklore” as more and more Felicias are seen on the roads. People who at one time might have laughed at a Skoda joke are today purchasing their first Skoda.

Therefore we recommend to open new assembling plant in Mexico and make it as a base to enter American market and reposition of brand name strategy by increasing marketing efforts.

Republic of the Philippines
Capiz State University
Main Campus, Roxas City
College of Business Administration

SKODA AUTO- 2007

Case Analysis Presented to:
Mr. Ian B. Arcega MBA, MPA
Professor

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Presented By:

Camille Frances F. Acevedo

Jean Marie Dela Cruz

Jazz Talabucon

Janen Sustento

Sheryl Juvi Villarena

Aiza Altamia

Lovely Mae Dolor