

The small car industry five forces model

[Business](#), [Marketing](#)



In April 1994, General Motor's senior managers invested \$900 million in the Saturn project to launch a new brand of cars in the U. S. small car market segment. A Five Forces Analysis provides insight into the industry at the time of investment (Appendix 1).

Suppliers' Power: Because Saturn made the vertical integration of suppliers, inconvenient location of the complex did not adversely affect Saturn.

Buyer' Power: Buyers are price sensitive and tend to shift to luxury segments. Though retailers are required to exclusively sell Saturn cars, they experienced high customer satisfaction.

Substitutes: Cars in other segments, especially mid-size cars, are substitutes for small cars. Public transportation such as bus, taxi, and train also could be classified as a substitute.

Potential Entrants: Due to the huge capital investments for car manufacturing, entering the market is difficult for new manufacturers. Existing vehicle manufacturers could easily enter the market by shifting their focus to the small car market segment.

Rivalry: There over fifteen manufacturers competing in the U. S small car market. Imported cars which have reputation of high quality, reliability, and durability are the strongest rivalries for Saturn.

Saturn's Core Competences

GM has developed Saturn's core values by process of incubation. The incubation approach enabled Saturn to create new values in its value chain

(Appendix 2). Saturn's brand new Spring Hill Complex is one of the symbols of its new value, which has brought efficiency and high quality to Saturn, with its vertically integrated complex and employee involvement. Saturn's new sales process, which includes a no haggle pricing policy and a money back guarantee, is also an achievement of the incubation approach.

In pursuit of the value chain, Saturn has developed key skills and knowledge at world-class standards that have resulted in its ability to execute several critical processes that are essential to its strategy and long-term success. The skills and knowledge (core competences) that Saturn has developed can be broken down into two categories insight/foresight and frontline execution.

Insight/foresight competences have enabled Saturn to learn facts and patterns about the customers' preferences and needs in the U. S. small car industry segment. Saturn was able to capitalize on its market research by discovering exactly what the consumer preferred in a small car, such as affordable transportation, quality, and the ability to purchase upgrade options with the car (Graph 1). In addition, Saturn also learned from its research what consumers didn't want - confusing promotions and pushy salespeople. The skill that Saturn displayed in identifying the consumers' needs and preferences enabled the company to differentiate itself and gain substantial market share in a highly competitive market segment.

Saturn was able to capitalize on the market research by developing frontline execution core competences. Saturn's world-class sales force and customer service departments have developed from its insight/foresight core competences. By focusing on what the customer did not want (i. e.,

confusing promotions and pushy sales people), Saturn developed other core competences. First, Saturn distinguished itself by creating a family and sometimes referred to as a 'cult-like' atmosphere.

Unlike its competitors, Saturn did not bargain with its customers, insist on the customer buying unwanted options, or offer confusing financing on its products. Saturn offered a 30-day money back guarantee, and followed up with the customer after a sale was completed (Graph 2). Second, the company offered exceptional after the sale customer service that further differentiated Saturn. By evaluating dealerships and employee bonuses on the customer's satisfaction, Saturn was able to instill its frontline execution core competences in its people.

Conclusion

Saturn was successful in their entrance and penetration into the small car market. They created customer focused core competences that helped them become a market share leader in the small car market segment. Saturn imitated the foreign automakers in the process and production of creating a small car. Moreover, they made quality cars that were exactly what the small car consumers wanted: affordable, eye-catching, reliable and quality cars that had low future maintenance costs. To differentiate itself from its competitors, Saturn had to be good at managing customer relationships and practicing customer relationship management (CRM).

Hence, their frontline core competence was their selling force and their efforts in creating a relationship with their customer. They did so decreasing

the pressures of purchasing a car and adding fun to the purchase and ownership of a Saturn. In addition, they used their management information systems to identify and target their core consumers by using sales territory management. As a result, the system allowed the network of Saturn's retailers to reduce inventory carrying costs by 25%. Identifying their core customers allowed Saturn create a relationship and, in turn, have a very loyal core group of customers. Furthermore, Saturn wholeheartedly gave its effort of customer services to show its commitment to its customers.

Saturn's core competences are not sustainable. As Saturn demonstrated, by emulating the process and practices of the small foreign car manufacturers, a core competence cannot be sustainable for long periods of time. According to Graph 1 (Products are What Customers Want), Saturn's satisfaction rating was surpassed by Chrysler (Dodge)'s Neon in 1994. This empirical incidence supports that Saturn's core competence is not sustainable anymore.

However, it may be difficult for other manufacturers to copy Saturn's strategy because Saturn started with a clean slate and spent a valuable amount of time fostering a relationship between management and the laborers, creating a productive work environment and establishing a relationship with consumers. Some imitated Saturn's customer service, but did so in vain. They could not copy Saturn's approach without losing profit. To sum up, Saturn may be at the top in 1994, but it will only be a matter of time before the competition catches up.