

Report and analysis of general motors



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This report will carry out an analysis of General Motors with reference to its current strategy. In order to do so the author will use a series of frameworks in the report. Porter's five force theory and PEST analysis will be used to conduct an external

analysis while the financial position, culture and structure will be used to conduct an

internal analysis.

In the latter part of the report a SWOT analysis will be conducted to assess the

strengths, weaknesses, opportunities and threats faced by GM. This report will also

analyse the possible choices of strategies GM had and will look into the

implementation issues GM would face following its decision to withdraw from the

European market and the subsequent reversal of that decision.

Background of General Motors

General Motors was founded in 1908 as a holding company of Buick, and was controlled by William Durant. He then purchased Cadillac, Oldsmobile and several

other companies in 1909. Having lost control over GM in 1910 he then went on to

start Chevrolet, through which he secretly gained control over GM once again, only

to lose it shortly after.

GM went on to become very successful during the post war era, and continued to

dominate the automobile industry. For most of the 20th century it held the title of the

largest automaker, until it was recently surpassed by Toyota (company info).

Task A

Q1

Internal Analysis

Structure

General Motors operates a multi-divisional structure. This model consists of independent divisions, each representing a separate profit centre. In the case of GM,

these divisions consist of different automakers such as Cadillac, Chevrolet, Pontiac,

Buick etc. Each automaker is operated separately and has its own hierarchy.

In

simpler terms each of these brands are semi-independent products whose corporate

strategy is overseen by the headquarters. The competition between these divisions

and the lack of centralization has proved to be very costly to GM over the years

(Michelle Powers 2009).

Organizational Culture

General Motors operates a strict bureaucratic culture(New York Times). The topmanagement makes all the decisions with little involvement from the lower leveemployees. This would have lead to the dissatisfaction ofemployees (Schein E. 1997)

Also it can be seen that GM lifers dominate the top management. Out of 12 executives 9 of them have been with organization for more than 20 years (GM

culture).

GM's employees cover almost 6 continents, 192 countries and 23 timezones.

Therefore as of recently GM had made it a priority to build a culture and business

environment based on the inclusion, mutual respect, responsibility and

understanding of their employees. To initiate this mission GM has introduced a

company-wide programme called 'I am GM', which would highlight the value of each

employee (GM website).

Core competence

Innovation is without a doubt a core competence of General Motors. GM has been using innovation in service and technology since as early as 1908. In 1911 it came up with a self starter engine which revolutionized the automotive industry.

In 1996 GM introduced a satellite system called OnStar, which could track vehicles if stolen. It also enables users to communicate with OnStar personnel. It now has over 2.5 million subscribers.

GM has also come up with night vision on Cadillac's five years ago and it has a high

demand even today.

As of recently GM is investing on more eco-friendly vehicles such as the ChevroletCruze, and hybrid vehicles such as ChevroletVolt. GM is also looking at pioneeringfuel efficient vehicles (GM core competence).

Financial position

By analysing the financial statements of GM (appendix 2) it can be seen that the

revenue of GM has been decreasing since 2006. Also the net loss before tax has

increased by a significant amountas well. The profit margin has also been decreasing since the last couple of years.

GM seems to have a very high gearing. Liabilities were amounting nearly twice the

amount of shareholders funds.

The total assets of GM also shows a huge decrease. The assets have decreased by

almost one third the amount in the previous year.

GM was performing well in the stock market in the previous decade until the early

2000's when the American government increased the interest rate, causing a blow to

the share prices. The September 11, 2001 attack on the World Trade Centre also

contributed to this decrease in share price, which has been on a decline since then

for the past 7 years.

External analysis

PEST analysis

Political

The economic downturn has caused governments to increase regulations and tighter

policies. Most of these regulations are the result of increasing concerns for the

environment and safety standards. Also the US Government recently bailed out

General Motors by purchasing a 60% stake. Although the Government will not take

any part in the management, GM would still have to report back to its largest shareholder.

Economic

Due to the recent economic recession the value of money has decreased, consequently reducing the spending power of consumers. Therefore a decrease in

demand for high value products such as vehicles can be seen. Also due to the credit

crisis the American financial system was frozen (CNN), resulting in banks freezing all

money lending facilities regardless of the credit ratings. Therefore potential customers will find it hard to get loans to purchase vehicles.

Socio-cultural

The modern society judges people by the vehicle they drive. Driving an expensive

new car is an indication of wealth and social status. Therefore manufacturers tend to

make use of this social perception and take advantage by catering and marketing to

different social classes or different income level groups.

Also, since recently more consumers are concerned about the environment and the

concept 'going green'. This has paved way to a new emerging market, where

manufacturers concentrate on producing environmental friendly vehicles such as

hybrid vehicles.

Technological

The introduction of internet has affected the industry in a positive way. More consumers prefer looking for vehicles over the internet before purchasing. Also the

internet proves to be a very effective marketing scheme.

A sharp increase in demand for hybrid vehicles can be seen. These technologically advanced vehicles which run on electricity or other forms of eco-friendly gases are preferred by more consumers.

SWOT Analysis

In order to assess the strengths, weaknesses, threats and opportunities GM faces a

SWOT analysis has been conducted.

A SWOT analysis summarises the key issues from the business environment and

the strategic capability... (text book page 102).

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Strengths

Although GM has lost most of its market share recently, it remains to be one of their

main strengths. They are still very competitive with about 20% market share in the

USA. Also GM has a growing market in China, making it the second biggest automaker in China (NY times).

The OnStar satellite technology which comes standard in all GM vehicles is another advantage GM has. This technology enables easy tracking of the vehicle in case it is stolen.

In production GM has economies of scale, making it possible to produce at a lower cost than competitors. Their global network of suppliers is another added advantage over their competitors.

Weaknesses

The bureaucratic organizational structure is GM's main weakness. The structure is vertically integrated causing lack of communication and slow feedback between the top management and employees.

GM has always been a step behind competitors when it comes to alternative fuel

vehicles. With the trend now moving towards hybrid and eco-friendly vehicles, GM is

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yet to come up with a competitive vehicle. Furthermore in a time of high oil prices

most consumers prefer Japanese and Korean fuel efficient vehicles to GM's gas

guzzling trucks and SUV's. Also the constant labour union problems and high

healthcare expenditure proves to be another weakness of GM (healthcare).

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Opportunities

As mentioned earlier, there is an increased demand for low cost, fuel efficient

vehicles which are eco-friendly. This creates an opportunity for GM to enter a new

and growing segment of the market. GM has already made plans to unveil its first

hybrid vehicle, Chevy Volt, and have unveiled the US version of the fuel efficient

sedan, the 2011 Chevrolet Cruze (GM website).

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Recently GM was able to increase their market share in China, enabling them to become the second biggest automaker (NY times). This shows the potential for investing in growing markets.

At present, many potential consumers are more interested in the attractiveness and

features on the vehicle. This taste in vehicles tends to change very frequently. By

knowing what consumers want and producing accordingly, GM has a chance of

regaining most of its lost glory.

Threats

A major threat facing GM is the rising fuel prices. Since most of GM's vehicles are

not fuel efficient, they tend to lose demand at times like these. The increasing

healthcare expenditure can also be categorized as a threat. GM is responsible for

providing healthcare insurance for more people than any other company in the USA.

Therefore this raising expense is a burden to compete with other rivals (Washington

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Post).

The past decade saw Toyota claim the title of the largest automaker overtaking GM.

This growth of competitors is also a major threat to GM. They also face stiff competition from Ford, and other Japanese and Korean companies

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Q3

General Motors had a number of options to choose from to rebuild its lost glory. In

order to evaluate the potentially suitable options that were available, the Ansoff

Matrix framework can be used (Richard Lynch). The Ansoff Matrix (Appendix 3)

examines the several options that were available to General Motors.

Market Penetration

One of the potentially available choices as identified by the Ansoff Matrix is the

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market penetration strategy. This involves increasing the existing market share in the

current market to achieve higher growth (Phil stone- eBook). GM would be able to

attract more customers by making improvements in existing vehicles and selling at

competitive prices. Further enhancements on vehicles such as fuel efficient engines,

and the latest in satellite navigation technology would be highly indemand by

potential customers. Furthermore GM could use this strategy to retain existing

customers as it is much cheaper. As mentioned by Lynch R. (2003) companies like

Toyota and BMW make great efforts to retain existing customers when they change

cars.

This strategy also considers Withdrawal in order to downsize the company thereby

increasing the competitive advantage. This was the option GM has chosen.

GM has

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recently announced plans to phase out the Pontiac brand by the end of 2010.

The

decision of eliminating the Pontiac brand was made so that GM will be able to

concentrate better on its main brands Chevrolet, Cadillac, Buick and GMC

(market

penetration). GM has also unveiled plans of more job cuts by the end of 2014

proving their intention of downsizing further.

Market development

Another option as identified in the Ansoff Matrix is the Market development strategy. This strategy considers marketing existing products into new markets (Phil Stone). This has proved to be a successful strategy in the past. GM had invested in China a few years back, and it is now the second largest automaker in China. This shows the potential of investing in a new market (opportunity China).

This strategy also involves re-evaluating the market, and positioning themselves

better. The approach GM is following at the moment seems to be failing miserably.

The target market has changed its attitude towards GM recently. They no longer look

at GM as a manufacturer of Traditional American vehicles. Therefore it is essential

that GM select a specific target audience to whom they could cater to more effectively. For example GM might want to target the senior population , who still look

for that traditional look in a vehicle for their vintage muscle vehicles, and the young

generation for the more attractive sports vehicles.

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Product Development

Product development is another possible option identified in the Ansoff Matrix. This

strategy considers significant new product development in an existing market (Phil

stone). This is a fairly suitable option for GM to regain its lost glory if they could come

up with a new product. Since the majority of potential customers are more interested

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in hybrid and other eco-friendly vehicles, quite a lot of vehicle manufacturing giants

have invested heavily in the production of alternative fuel vehicles. This would

ideally set the stage for GM to manufacture a hybrid model and capture the market

before competitors.

This strategy would also enable GM to consider other needs of potential customers

and come up with a completely unique product that would stand out from competitors. This is exactly what GM would want in a position they are in now, a

product that would be more appealing than other competitors.

Diversification

The final choice of available options the Ansoff Matrix identifies is Diversification.

This involves moving away from the current products and markets, and entering new

areas. This would involve a higher degree of risk, but if done properly, would generate higher benefits (Lynch)

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Under this strategy GM would have two choices. Either move into related markets, or

into unrelated markets. By moving into related markets, GM would be manufacturing

products which is related to vehicles. Possible goods and services GM could diversify into are forward integrated, such as distribution and transport. By eliminating the middlemen in between distributing and selling, GM might be able to

increase their already thin profit margins. GM could also diversify into unrelated

markets where there is no relation with the core business. GM currently operates an

effective financial service providing loan facilities to customers. GM could also make

partnerships with other companies outside the automobile industry in a similar way to

Italian automobile maker Lamborghini who made a deal with computer giants ASUS

to design laptops (Lambo laptops).

Recommendation

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Out of the above strategies the most suitable, feasible and acceptable would be

product development. This is because, as mentioned earlier GM has an opportunity

to come up with a hybrid vehicle before competitors. Since GM has the necessary

technological capacity to make that happen, it is only logical to go for it.

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Q4

General Motors are likely to come across several implementation issues following its

decision to withdraw from its European operations and the subsequent reversal of

that decision. The Mandelow Matrix can be used to identify some of these issues

relating to GM's key stakeholders.

The Mendelow Matrix, also known as the Power/ Interest matrix (appendix 3)

classifies stakeholders in relation to the power they hold, and the level of interest

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they would show in supporting or opposing a particular decision (text book, 6th

edition).

GM would probably not encounter any serious issues from stakeholders in segments

A, B and C as shown in Appendix 3. The only segment GM would want to pay close

attention to is segment D, to which the most powerful stakeholders such as the

Labour Union, Governments, and Equity holders belong to.

A major issue that GM faces during the implementation is the strict opposition by the

United States government and the General Motors workers on the decision to sell off

its European operations to Magna. The reason for this opposition is because the

partner of Magna is a Russian auto manufacturer, and selling an American icon such

as GM to a Russian controlling party is not something the stakeholders would want

to see happen. Therefore key Stakeholders in the likes of the US government and

GM employees have made their intentions clear by not supporting this decision

(issue 2).

One of the main implementation issues GM has come across following their decision

to re-structure the German subsidiary Opel themselves rather than selling it off, is

the stiff opposition from the German politicians, employee unions and German

citizens. The German government actually backed GM in their bid to sell off Opel,

and now this sudden turn in events has angered many German key stakeholders. A

majority of Opel workers were seen protesting against this decision by GM in

Ruesselsheim, Germany, the future home of GM Europe. This anger towards GM is

mainly due to the inevitable layoffs when downsizing Opel. This is a major issue, and

if GM is to be successful once again, this matter will have to be sorted out very soon

in the near future (issue 1).

Another key implementation issue that GM has to deal with because of their decision

to sell off their European arm Opel, and the reversal of that decision is the problems

caused by trade unions. GM was already facing enough problems from the Unions,

due to their plans of re-structuring, predicting inevitable job losses. It is purely

because of this that German government has pledged billions of euros to Magna in

return for protecting the jobs at Opel factories. The reversal of this decision has only

managed to fuel the anger of the labour Unions further. It is estimated that the

factories in Europe run at a 30% over capacity, and therefore job cuts will be

inevitable. Labour Unions have already given warnings about labour strikes in the

future if a reasonable conclusion is not drawn. Therefore GM will have to come up

with a solution in the near future, or else their success in Europe will be in jeopardy

(issue 3).