

Economic
circumstances and
how its impacted on
businesses marketing
essay



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“ The fast changing economic circumstances of the last three years have impacted severely and urgently on earlier business strategies and have compelled significant changes.”

It is not usually advisable to change business strategy but economic conditions force business to review their strategic plans in order to stay competitive in an ever-changing global environment, this assignment will begin with some background information detailing the biggest economic event of the last five years which was the world-wide economic downturn. This began with the US subprime mortgage crisis of 2006 in which many houses across the US were repossessed as mortgage owners were unable make payments to the banks, this in turn lead to a rapid flooding of the housing market and a crash in prices, this stemmed from neglect in the banking industry in assessing customers eligibility for mortgages, instead mortgages and refinancing was given freely to customers with bad credit ratings and low incomes so banks could inherit the fee that was offered for all mortgages sold onto the bonds market. In turn this neglect has been the major catalyst in what has become one of the biggest global recessions of our time, halving the building industry which held a 15% share of the US economy, millions of jobs have been lost throughout the world as small and large scale business linked and indirectly linked with the building industry closed, customers confidence in the banking industry also fell and this saw the stock market plummet (BBC, 2007; Jaffee, 2009; Stock Market Investors, 2009).

Moving onto strategy which is based on the long-term goals of a business, including activities, how a company differs itself from its competitors and <https://assignbuster.com/economic-circumstances-and-how-its-impacted-on-businesses-marketing-essay/>

how it uses its assets to better position itself within the marketplace (Johnson et al, 2008).

Johnson et al (2008) states that there are three levels of strategy with the most important being corporate level strategy; this involves decisions that are made for the entire business, business level strategy is based on the different areas within corporate strategy; it is concerned with ways forward for these businesses within their identified markets, within this area are strategic business units that are segmented businesses within an organisation that offer goods or service but differ from others in the same organisation, and finally operational strategy which is concerned with how the main mechanisms of a business work to deliver success from corporate and business level strategies as relates to the processes, people and assets of the organisation. Looking at business-level strategies, Hitt et al (2009) identifies five types “ cost leadership, differentiation, focused differentiation, focused cost leadership and integrated cost leadership/differentiation”, companies can choose from these to create and protect their position as each can be used in gaining a “ competitive advantage within their competitive scope”. Competitive advantage is finding the platform on which companies find their solid ground to work on (Drummond and Ensor, 2003) and Hitt et al (2009) identified two types of competitive scope as broad target (large industry base) and narrow target (narrow industry base).

Returning to business-level strategies available to companies, Porter (1998) identifies three generic strategic that can be used competitively within an industry as Cost leadership, Differentiation and Focus. Overall cost

leadership is used to uphold an overall low cost which is achieved through <https://assignbuster.com/economic-circumstances-and-how-its-impacted-on-businesses-marketing-essay/>

forceful application of “controlling over-heads, economies of scale, cost minimisation in areas such as marketing, research and development, global sourcing of materials and experience effects,” also modernising older techniques and technologies offers can reduce costs, however this strategy can encounter competition from larger businesses as most products associated with this strategy are mid-range “commodity type where discounting and price wars are common” also investment into this market typically incurs high costs (Drummond and Ensor, 2003). Differentiation strategy involves products or services that are unique to those offered by competitors (Johnson et al, 2008), for this reason suppliers can demand a premium for the product or service they offer whilst still being rated as value for money from customers. The negatives of this strategy (Drummond and Ensor, 2003) would mean more quality but at a premium also advancements in technology/innovation can be copied and used by others in the same market, also what is important to consumers one day may become redundant the next so progression and advancement are a continuous objective of this strategy which puts added pressure and costs on the research and development department to change regularly so they can keep up with consumers needs and wants. Focus strategy on the other hand relies on identifying a target or niche market within a specific sector and concentrates on distribution within that sector, i. e. geographic locations, advantages can also be derived from the use of differentiation and low cost strategies in these target or niche markets, disadvantages of this strategy could be a reduction in activity within the specific groups to which the strategy is targeting. Porter identifies the use of only one of his three strategies at any given time as a means for competitive advantage and that <https://assignbuster.com/economic-circumstances-and-how-its-impacted-on-businesses-marketing-essay/>

using more one at the anytime can have a negative effect on the company and result in being “ stuck in the middle” but an argument to Porters theory is the hybrid strategy, this shows that two of Porters generic strategies can be used successfully together without becoming “ stuck in the middle” as this assignment will prove further on with Hyundai and Fiat (Drummond and Ensor, 2003; Proff, 2000).

The first industry to be analysed is the personal computer industry, this industry is highly susceptible to changes within the economic environment with the internet being the main driver behind its success through the 90's, main drivers for success is advancements in technology and pushing companies to become more innovative or risk losing its appeal. Dell is one of the leading producers of personal computers in the industry by adopting a build-to-order production which resulted in lower costs, and direct-selling (offering the product solely from Dell through telephone or online ordering including the distribution of the product), Dell was able to cut out any middle retailer which saved costs and increasing its market share by offering a discounted product to its customers (Dedrick & Kraemer, 2005). Scheck (2009) identified Dell as starting to take advantage of the current economy by adopting a mergers and acquisition strategy which would enable to company to take over companies worst affected by the recession (Rhodes & Stelter, 2009) thus leaving them open for possible take-over, such as the “\$1. 4 billion acquisition of storage maker EqualLogic in late 2007”, this acquisition has enhanced Dell's share of the storage market and identifies this as a key area for future investment. Since 2006 Dell has seen a huge reduction in growth so much so that profit dipped by 63% and revenue fell

by 23% in April 2009. A broader business scope would make Dell more competitive within the global market and put the company in a better position to compete with businesses such as Hewlett Packard who currently hold the number one spot as the provider of personal computers on a global scale (Foresman, 2009). One such area which would broaden Dell's scope is the Smartphone market and Dell is currently in talks with companies in China regarding the development of this product and operating systems (Waters, 2009). Dell's future outlook into adopting a mergers and acquisitions strategy will be based on the status it developed through its low cost strategy in previous years, this will assist in reducing costs for the consumer as Dell will be providing the hard-ware, software and service manoeuvring the company positively into becoming a more aggressive competitor within the market (Scheck, 2009).

Apple Computers applies a differentiated strategy one which focuses on innovative, quality and modernised developments within the IT industry such as the iPhone which was hailed as a radical piece of technology when it was brought into the market mid 2007, this was followed by the iPod touch which although not as popular as the iPhone to begin with soon followed suite with sales of the iPod touch rising over 100% towards the end of 2009 followed closely by the iPhone with 53%, popularity in both products have soared in the industry with both products having a reputation of being the product to have within the IT industry with consumers going so far as purchasing the iPhone for its mobile phone capabilities and also purchasing the iPod touch for its benefited use of WI-FI anywhere/anytime (Burrows, 2010). Since Steve Jobs introduction back into the company in 1996 Apple have maintained a

revolutionary thinking behind their products which began with the introduction of the iMac in 1998 and the hugely successful and innovative iPod in 2001 which currently hold a 70% share of the PMP (portable media player) market (wikinvest, 2006-2010), furthermore Apple began 2004 with a 30% increase in profits from the same quarter the year before and at this stage continued to be ahead of other competitors with its innovative award-winning products such as the iMac, MacBook and iPods (Dowling et al, 2004) Apple also officially launched the European version of its hugely popular iTunes Music Store making it the number one provider of music on the internet in 2004 (Kerris & Einbinder, 2004). Apple has proven itself in the industry be a provider of stylish, innovative products coupled with aggressively fun promotional strategies (wikinvest, 2006-2010) that to date have been the backbone to Apples success with products such as the iMac, MacBook, iPod, iTunes Store and the Apple branded operating system and application software (Marketline, f, 2009). Apple's CEO Steve Jobs as recently as January 2010 has stated that he sees no competition arising within the industry for the foreseeable future as Apple customers feel a sense of belonging to the Apple community which offers a wide range of products that have a huge range of functions which can also interlink with each other such as the iPod does with iTunes. The Apple brand has earned a solid reputation through its differentiation strategy amongst consumers giving it control of the quality phone market i. e. iPhone (Schwarz, 2009) and with the introduction of the new Apple tablet computer in 2010 it will further strengthen Apples hold over the market as a trusted provider of innovative, futuristic, quality products (Lyons, 2010).

The second industry to be analysed is the global car industry which according to reviews made by Milner and Clark (2009) of Edmunds. com a reduction of 18% in sales was seen from 2007 to 2008, which accounted for the worst decrease in sales for the global car industry since 1992. This world-wide economic recession has had a huge affect on large car manufacturing companies such as Ford who saw a drop in sales figures of 32% in 2008 compared with the same period in 2007, Chrysler was down 53%, GM 31% and Toyota 37%. This has seen the new car market to have contracted by 14% in 2009 (Economist, 2009), (Marketline, a 2009) the annual growth rate of the global car industry in 2005 stood at 5. 90% with a rapid decline every year since then showing 2009 figures of -5. 50% representing a 1% growth in the industry over that five year span. However, 2010 is looking to be a bright start for the car industry with new purchases expected to grow to 4. 7% globally (Economist, 2009) and on the backbone of this news is Hyundai who took the global recession in its stride and to its advantage by firstly offering the “ Hyundai Assurance program” which gave customers the opportunity of returning their car if they lost employment (Advertising Age, 2009). In the early days Hyundai made huge errors with cars by adopting a low cost strategy which saw its first two models “ Excel” in the USA being rushed to the market to take advantage of the volumes it was selling, the cars were overrun with errors and in the end the company made massive, in more recent years Hyundai’s sales have risen by 46% in 2010 compared to 2008/2009 and the company is currently the fastest growing car manufacturer in the world with net profits predicted to rise above 40% in 2010 all down to offering consumers what they want in recessionary times which is fuel saving cars and with this they have advanced ahead of the <https://assignbuster.com/economic-circumstances-and-how-its-impacted-on-businesses-marketing-essay/>

competition as consumers with an ongoing recession in mind are more focused on smaller cheap to run cars (Advertising Age, 2009). However, even in the midst of a recession the company has been pursuing a hybrid strategy with the focus being on differentiating Hyundai, starting with the launch of the Genesis Sedan in 2008 which saw a hugely successful response from the market and also won the “ North American Car of the Year” award in 2009 (Automotive News, 2008; Taylor, 2010).

Hyundai are also branching into the luxury car market with the introduction of the Equus in 2010 which is intended to compete with luxury cars as BMW, the article (Taylor, 2010) states this to be a gamble as consumer who are looking to purchase luxury cars would not categorise Hyundai as being part of the luxury car market. Hyundai are more focused on quality and began this approach with first benchmarking Toyota, then installing Six Sigma to rate improvement at its engineering centres, from here the company has gained strength with being rated 32nd out of 36 cars in a new car study by J. D. Power in 2001 and moving into 4th in 2009 ahead of Toyota, even though the company is not associates with the luxury market a review of the Equus has ranked it alongside some of the top luxury cars on the market to date and viewed it as a car that should appeal to the higher ranking customer, it is now just a waiting game to see if consumers view it in the luxury market as it is feared that with the economy still in recession mode consumers may stick to what they know rather than what is new. Hyundai’s aim is to be part of the top three ranking cars manufacturers in quality within three years and have developed a quality target called GQ 3-3-5-5 to achieve this (Taylor,

2010) which keeps them within their goal of working towards a differentiated Hyundai.

Many professional believe that in times of an economic downturn like the global recession there will be some companies that emerge as winners as they have foreseen the challenges and put strategies in place to counter the downturn, one of the companies that has emerged from this recession with its head held high it the Fiat Group (Ferrari, 2009). Fiat began as a low cost car company usually associated with low quality products so much so that the Fiat brand was given the nickname “ Fix It Again Tomorrow”, but towards 2001 Fiat began changing its strategy to focus on quality cars, starting with the Stilo that was designed to compete with the likes of Ford and Volkswagen, (Edmondson & Tierney, 2001)

Fiat is one of the smallest car manufacturers on the global market, but this has not stopped Sergio Marchionne (Chairperson) who was appointed to the company in 2004 in pushing the boundaries. Marchionne began his time at Fiat by replacing most of the management with younger, more market-driven-forward-thinking leaders that were aggressive and hungry (Economist, 2009). Marchionne is grabbing the opportunities made from this recession through adopting a mergers and acquisitions strategy the first of which was to acquire Chrysler in June 2009 who were severely affected by the recession with sales fallen below 40% and market-share drop from 11% to 9% in 2009 (Welch, 2009), thru the Chrysler deal Fiat gained a 35% equity stake in the company, access to its platforms, joint purchasing of parts, expertise in large cars, a distribution network and manufacturing capacity to build new Alfa

Romeos, presently the Cinquecento which works off a low cost strategy will <https://assignbuster.com/economic-circumstances-and-how-its-impacted-on-businesses-marketing-essay/>

be launched into the American market in 2010 (Cohen, 2010), Chrysler have benefited with gaining access to Fiats small/medium platforms plus insight into its fuel efficient cars (Economist, 2009). Eyes are also on an Opel deal which belongs to GM, both companies share similar components and would benefit from the other companies platforms: GM does not have platform A which Fiat does, they share a platform B, and Opel possesses fantastic C and D platforms, the main objective is to join on all levels to reduce costs as Mr Marchionne estimated a company needs to produce 1million cars a year from each platform to drive down costs but currently Fiat produces 600, 000 cars on its platform A, however, with the inclusion of the Opel brand it would save the company billions in manufacturing costs each year by joining platforms. Fiat has also agreed a 50-50 joint venture with Guangzhou Automobile Group Co Ltd in China to produce cars and engines for the Chinese market, this venture is further adding to Fiats global expansion/acquisition and mergers strategy.

To conclude due to the global recession which was instigated by the collapse of the subprime mortgage crisis of 2006 companies were forced to change their business strategies in order to stay competitive, the personal computer industry was more susceptible to change than most due to its reliance on luxury goods and continuous development of the industry. Dell began with working off a very successful low cost strategy, providing all products and distribution which reduced costs for the consumer, in more recent years whilst still adopting the same low cost strategy it has moved into using retail stores to sell its products and also into the area of mergers and acquisitions, this main focus of this strategy is to expand Dell's business portfolio so it

may provide all hardware, software and storage devices resulting in a reduce cost for the consumer and making it more competitive in the market. Apple on the other hand have always implemented a differentiated strategy which has worked very well for the company over the years, its products are hailed as innovative, stylish ground-breaking pieces of expensive technology such as the iPhone, also the Apple brand is viewed as being associated with high quality innovative products that consumer feel confidence towards.

The car industry has also been devastated by the economic recession but some manufacturers have managed to stay on top like Hyundai, the company began with adopting a low cost strategy which offered unreliable cars and tarnished the company and its image, in more recent year the company has made considerable advancements with fuel economic cars and are now focusing on quality such as implementing quality targets like the GQ 3-3-5-5 and the introduction of the Genesis in 2008 and the Equus in 2010 for the luxury market, the Genesis saw a good response from the market showing the company to have moved away from the bad reputation it once held but it is still to be seen if the company can move into the luxury market. Fiat who were once so famously associate the with the term “ Fix It Again Tomorrow” due to the awful quality of its cars have moved to providing fuel efficient cars to its low cost division such as the Cinquecento, but also adopting a differentiated approach such as the introduction of the Stilo in 2001 and as with Dell Fiat is also adopting a mergers and acquisitions approach to take advantage of the recession with such deals as Chrysler in which it acquired a direct line into the American market in which it will be introducing the Cinquecento in 2010, also a possible share of Opel and a

joint venture with Guangzhou Automobile Group Co Ltd to produce cars for the Chinese market is showing this strategy to be the way forward for Fiat.