

Marketing case analysis: curtis automotive hoist essay sample

[Finance](#), [Investment](#)



Basic Problem: CAH's basic problem lies in determining whether the company should expand or increase its growth prospects, and CAH must decide on whether it should do so in the United States by expanding its existing operations and sites, or whether CAH should explore opportunities in Europe and entry options available to the firm in Europe.

Basic Decision Alternatives:

*CAH had the option altogether of forfeiting expansion projects abroad in Europe and increasing their existing sales in the United States. Both Mr. Curtis and Mr. Gagnon felt that the U. S. market had unrealized potential with a population of 248 million people and over 140 million registered vehicles.

* Entering European markets using the following entry options:

- Licensing the lift for sales with other automobile part's manufacturers that would allow CAH's products to complement other manufacturer's existing product sales.
- Joint Venture that would give Mr. Gagnon and Mr. Curtis a 50-50 equal stakeholder position in Europe and an equal share in the company's investment and profits.
- Direct investment where CAH would establish a manufacturing facility and set up a management group to market the lift.

Analysis of each of the alternatives:

*Within in the United States competition was intense with a total of sixteen companies competing in the automotive lift market in North America. The industry was dominated by two large U. S. firms, AHV Lifts and Berne Manufacturing who together held approximately 60% of the market.

* Licensing option: While the licensing option would allow CAH to sell its existing products in Europe through an established and renowned dealer: Bar Maise, CAH's reputation and brand image would be at stake, since Bar Maise's was not well known across the transatlantic in the U. S. Furthermore, Bar Maise was prepared to pay a royalty rate of only 5% of gross sales, which in my opinion is a nominal portion that would not equate to high profits.

*A joint venture had many " profitable" qualities, such as, allowing CAH to enjoy a higher/greater rate of return, heightened position with respect to decision making, and more control over the marketing and distribution networks of the CAH that could in turn allow CAH to expand its market share in Europe in the future and generate higher revenues and maximize profits. Furthermore, a joint venture could also help mitigate potential risks, primarily market risk, and returns over the two companies. However, the success of a joint venture depend on the extent to which underlying assumptions are taken into consideration, such as, CAH's ability to interpret European markets and increase market share accordingly. Similarly, poor decision making could adversely affect CAH.

* The main advantage of a direct investment is that such an investment would allow the firm to maintain full control over its operations, sales and profits. However, the main limitation of such an entry option lay in the huge one-time, start-up costs (\$450, 000 for capital equipment and incremental costs), and additional carrying costs of \$1, 000, 000 and annual maintenance costs of \$80, 000.

Each of the options above has its own set of advantages and limitations, and while the first two entry options in Europe could allow CAH to utilize Bar Maise's strengths as a market leader and expertise, the ability to maximize profits by benefiting from synergy costs had to also be taken into consideration. Furthermore, a joint venture or a licensing option also posed other concerns, such as, earnings forecast and ability to generate sufficient profits. While the third option (direct investment option) could prove to be expensive in the short term, in the long term it could prove to be fruitful as CAH expands its operations and enjoys full control over ownership, decision making and profits.

Also, the data available relates to past sales data and such data cannot be used to forecast future sales. With the availability of more quantitative data, such as, future free cash flow data for each of the entry and investment options available to CAH, this could in turn allow CAH to use discounted cash flow (DCF) analysis for each of the investment options, as well as, net present value (NPV) analysis for the second investment option.

Recommendation and Implementation:

I strongly feel that CAH should weigh each of the entry options in Europe using financial data, such as, data on future free cash flow, to calculate DCF and NPV. I also feel that CAH should forecast its future sales revenue power in the United States and its ability to do so. While my analysis weighed each of the options primarily using qualitative data, quantitative data (forecast data) would, in my opinion, allow CAH to make more informed decisions on whether it should expand existing sales in the United States or exploit market opportunities in Europe.

However, based on the underlying assumptions and limitations taken into consideration above, if CAH decides to enter Europe, I feel that a joint venture approach would be the most appropriate, since such an entry method would allow both CAH and Bar Maise to utilize their market and product knowledge and strengths, and would also allow both firms to spread the risk equally between each other, as well as, potential profits and rewards. Moreover, if such an entry option proves successful and market opportunities in Europe can be exploited, then this would in turn allow CAH to expand operations on a larger scale than existing operations through their joint ventures would allow for.