

General motors case analysis



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General Motors: Cadillac Case Analysis

Situation Analysis

In 1986, Lloya Reuss, who was the Executive Vice President of all North America car operations for General Motor (GM), set new goals for GM to achieve because the task before Reuss was an ominous one. In 1959, when Reuss joined General Motors, GM and Cadillac had huge changed. Also, during that time, the U. S. auto market belonged to the three domestic producers (GM, Ford and Chrysler), and Cadillac was the standard of the world. Yet, after 30 years, the domestic producers market share has decreased, and Cadillacs competition was not only by domestic market but also by Asian and European competitors. (1)

Nature of Demand

The U. S. luxury car market can be classified into two segments: traditional and functional. Cadillac was one of the traditional types, so customers have demanded the best in traditional luxury cars. Indeed, these traditional Cadillac consumers were most often professionals, above average in income and education. Also, the average age of customers was 58 years old, and they were used to purchase the biggest and most powerful cars. However, the situation has been changed according to the demographics of 1988, it shows below: (12)

MedianAge %<35 Median % colleges

AgeIncomeGrad+

Cadillac 622. 5%\$61. 138. 4%

Sedan de Ville 626. 9%61. 040. 3

Brougham650. 353. 227. 4

Eldorado604. 170. 239. 7

Seville 631. 690. 047. 2

Allante546. 1150. 047. 1

Cimarron609. 545. 247. 0

By different style of the cars that Cadillac produced, Cadillac targeted age was different, but Cadillac was trying to keep its brand loyalty customers. However, Cadillac wanted to aware younger buyers who want the luxury automobile, such as Allante was the new and unique car for age was 54.

From the year of 1985 to 1987, cars sale of Cadillac were 298, 762, 304, 057 and 261, 284 because other import cars, international currencies and fuel costs affect customers decision. Also, consumers want quality performance in addition to stylish design expected luxury automobile attributes.

Extent of Demand

In 1959, General Motors used to be the number one in the auto industry (42%), but after thirty years, Cadillacs market share and reputation has fallen 67. 8% because of international competitors. In the mid-1970s, the U.

S. auto market was affected by the high cost of fuel, so Cadillac downsized products. As fuel costs stabilized in the 1980s, consumer analysis not done, therefore did not know about consumer wants and desires in automobiles.

Cadillac tried to expand its auto market, so it began to focus on younger adults by producing new design cars. If Cadillac did not offer the right balance, it might lose traditional buyers.

Cadillac is one of the divisions of GM, so there are certain parts of the Cadillac such as chassis or platform became interchangeable with other models of GM such as Buick Electra and Oldsmobile 98. So, it may confuse consumers was this truly a Cadillac? Or is it a Buick Electra with a Cadillac body? Etc.

Nature of Competition

The U. S. automobile market began to shrink from approximately 96.5% in 1957, to 85% in 1973, to 77% in 1979, and to 68% in 1987 because the huge imports were from Japan that is the world's largest producer of motor vehicles. (2)

Domestic competition

Ford's Lincoln was not far behind Cadillac in 1979 Town Car/Coupe, Lincoln's equivalent to the de Ville was downsized to dimensions similar to the Cadillac. For example, Cadillac de Ville/Fleetwood offered traditional large, 4-door, 6-passenger, rear wheel drive, V-8 engines. While Ford's Lincoln Town Car are of the same configurations. (3)

o According to the domestic sales, Lincoln sold 165, 138 units in 1985, 177, 584 units in 1986, and 166, 037 units in 1987.

o Chrysler competed in all other fuel efficient, economical market segments and was never really a threat to Cadillac as the leader in the luxury car market.

Foreign competition European luxury cars emerge as serious alternative types of luxury automobiles. Functional luxury cars 1980s

o Rolls Royce of England renowned as the producer of expensive, hand-built luxury cars (not a competitor of Cadillac). (4)

o Mercedes-Benz provided a silky smooth ride with firm, supportive seating and a controlled ride in an automobile engineered for traveling at high speeds on the German autobahn. Considered to be the ultimate car in the luxury market (however, recently being challenged by BMW) Owners rated their cars and dealer service higher than Cadillac owners did when asked the level of satisfaction of vehicle ownership and dealer service. (5)

o BMWs (Bavarian Motor Works) strategy differed from Mercedes in that BMW catered the sport-oriented functional luxury buyer. But, the product line is similar.

o Audi (Germany) reached an all time high U. S. sales volume of over 74, 000 units in 1985 due largely to its sleekly styled 5000 series (48, 057 units). Priced lower and could be purchased with one of the first applications of four-wheel drive in a passenger car. However, in 1986, 5000s equipped with automatic transmissions were reportedly unintentionally accelerated, and

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sales began to slide. In 1987, sales were off by 44.2% from two years earlier. Introduced an all-new replacement in 1988 in its effort to restore Audis presence in the luxury car market. New interior redesigned in addition to its engineering developments that differentiate the 100/200 models from the 5000 series. (6)

Foreign competition Asian luxury cars emerge as fuel costs stabilize in the 1980s, a strong Japanese yen created a situation in which the Japanese were no longer the low-cost producers and began expanding product line upward to include a greater proportion of compact and midsize cars.

- o Honda provide European-style functional luxury cars, but at the price of traditional domestic luxury models. (7)

- o Acura, which is the Japanese luxury cars from Toyota and Nissan, establish itself in the U. S. luxury car market. Between year 1986 and 1987, Sales of Acura in U. S. was increasing about 50% because Acura focus on the vehicles handling and performance. So, sales will increase and more then other European brand in the auto market. (7)

- o Toyota and Nissan are in the process of lunching their own luxury car division: Lexus and Infiniti. Lexus initial offered a new sedan with a modern multivalent V-8, and it appears to be an amalgam of BMW and Mercedes-Benz design cue. Nissans Infiniti brand was a new definition of luxury and establishes an international image beyond that of BMW and Mercedes. (8)

Environmental Climate

Energy prices increased during the 1970s, so the product of temporary shortages in the supply of oil. Therefore, import manufacturers, many of which were building small, fuel-efficient automobiles, were in prime position to take advantage of the situation. (1) Throughout the energy shortage and until the mid-1980s, the Japanese enjoyed favorable yen/dollar exchange rates were, so in large part able to offer vehicles that cost less than comparable U. S. or West European products. (2) However, the U. S. government pressured by domestic auto companies imposed a voluntary restraint or quota. The government should protect domestic market by limit import.

Car sales are a function of the economy. Domestic automobile manufactures offered large cash rebates and attractive low-interest financing to spur sales during the high interest rate and slow economy. Also, customers can get the best models and sale incentive. (9)

The Global Automobile Industry is witnessing a shakeout with the emergence of a consortium of major giants like GM, Ford, Toyota, Volkswagen etc. consider the case of GM, the worlds largest car manufacturer. It has strategic tie-up with Fiat, Italy and Suzuki, Japan. To reduce the cost of developing a new car, companies are forced to develop a world car catering to all regions. So, companies will develop and manufacture cars at different parts of the world.

Stage of product life cycle

Cadillac is in a mature market (the automobile industry) of the life cycle.

However, each car of Cadillac was going through the product life cycle until the next new car produced.

Customers responses are the key to decide cars life cycle should be longer or shorter. If the sale of the car is low, the company may decide to create other new products to cover the loss. On the other hand, if a car is very popular, the company may decide to create the series of the car, so the product life cycle can be the type of extended fad.

Cost structure of the industry

Cadillac 3-year sales by model (10)

Year

Cadillac

Eldorado

Seville

Cimarron

Allante

1987

203, 487

21, 470

24, 266

12, 259

2, 517

1986

235, 206

24, 266

21, 150

23, 435

—

1985

187, 664

58, 310

29, 034

23, 754

—

In 1987, Cadillac made up less than one-quarter of all such sales. In 1985, the Eldorado and Seville had sales of 66, 836 and 32, 986.

Cadillacs 1989 model line range in price

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Coupe de Ville

\$25, 000

Brougham

26, 000

Fleetwood

30, 000-34, 000

Eldorado

27, 000

Seville

30, 000

Allante

57, 183

The price of Cadillac is cheaper than other competitors, but the company likes to see Cadillac move upscale.

Skills of the firm

Cadillac focused its business on the U. S. auto market, and propelled its status as the standard of the world, so Cadillac began to add new technology such as self-starter, V-8 engine and automatic transmission since 1912.

Customers can get different image of the new products.

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Financial resources of the firms

Cadillac had funds to support an effective marketing program that was TV advertising. For example, in 1987, Cadillac spent \$ 35, 334, 300 to promote the spirit of Cadillac and compared with the pervious years that the budgets were increasing 32. 5%. However, when Cadillac found out that its competitors spent more money then its, Cadillac raised its budgets to \$54, 126, 200. So, the promotion fee is flexible for Cadillac because the advertising is the major strategy of sales.

Distribution structure

Cadillac uses exclusive distribution because consumers only can purchase its products on the certain areas. Also, exclusive dealing often includes exclusive territorial agreements. So, Cadillac may not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory.

Problems and Opportunities

This section is analyzed by our SWOT analysis:

Strengths

OSize and market share

OLeader in traditional luxury car segment in auto industry 1940s through 1970s

OProduced longer, more powerful luxury cars (1960s) and was first to introduce its front wheel drive (FWD) vehicle i. e. Eldorado.

OInnovative and reputable for quality and safety.

OChassis sharing amongst other General Motors automobiles (Eldorado, Fleetwood, etc) help to lower costs while maintaining its individuality and quality.

Weaknesses

OMarket share and profitability decline

ONegative effects of downsizing product

OTarget market basically older, professional above average in income and education. Average consumer is around 58 years of age, are dying out.

OFailed to conduct consumer analysis

OTransition to new generation created a greater challenge

OLook-alike cars i. e. Cadillac de Villes and Fleetwoods looked like Buick Electras and Oldsmobile Ninety Eights.

OInnovation in late 1970s and early 1980s proved the unreliability of its V-8 diesel engines, manufactured from a modified gasoline engine, ultimately discontinuing the engine model.

Opportunities

OCapture wider market share and profitability

OProduct mix variability

O Downsize product to attract younger upscale consumers into traditional luxury car market

Threats

O Consumer activist, Ralph Nader, reported that Cadillac purchasers were not getting the expected quality from a \$25, 000 investment.

O Competition from Europe start importing to U. S. during 1960s and 1970s
Mercedes, BMW, Jaguar, Audi, Volvo

O Domestic competition Ford is biggest domestic rivalry for General Motors, next is Chrysler

O Competition from Asia around mid to late 1980s and generally stable fuel costs enable manufacturers to offer larger models with more powerful engines. Toyota (Lexus), Nissan (Infiniti), Honda (Acura)

O Low-end foreign competition Korea (Hyundai) and Yugoslavia (?) not a big threat but is still present

On balance, the situation is somewhat favorable

According to the list of SWOT analysis, Cadillac had a somewhat favorable market in the future. To achieve a better market share, Cadillac has to do more research on consumer analysis, deal with the challenge of transition to new generation by creating new products, and adopts more feasible managerial and market skills.

Generation and Evaluation of Alternative marketing Programs

Objectives Defined

There are some future objectives/alternatives:

- To increase market share
- To have a strong marketing plan to compete with other competitors
- To create specialty product
- To improve technique of manufactures

Marketing Mix

Target market

Mainstream automobile in the luxury car market

Brand positioning

Cadillac is a traditional luxury car for high-upper class and family orientation.

Product

Variety of products: Cimarron, de Ville, Fleetwood, Brougham, Seville, Allante

Provide exclusive products to attract customers

Ensure the product image related to its target market

Direct contact with products manufactures

Price

Competing with other competitors in lower price

Distribution

Set more locations to sale cars

Traditional in-store selling

Promotion

Royal member program can be implemented as well

Advertising for print ads, TV commercial and radio station

Public-relations company-sponsored public activities, events or celebrations

Program Decisions

Alternative # 1: Export autos to other country

Pros:

-To expand market

-To have higher profits

-To increase market share

Cons:

-Hard to compete with other domestic brands

-Barriers of local government tax issues and gasoline price

Alternative #2: Shift the target market to younger generation

Pros:

- To attract new customers

Cons:

- Lose the traditional customers

Alternative #3: Utilize successful and new technique to produce autos

Pros:

- To increase product quality

Cons:

- Need to spend more costs for learning new skills

Alternative #4: New marketing plan for GMs divisions

Pros:

- To increase sales

- Clear product image

- To expand market share

Cons:

- Overcome will be showed in the long run
- Decision/ Conclusion

Alternative #4 is the best alternative because it allows to effectively promoting profitable cars and efficiently creates new products. For instance, GM should recreate product images for different division to solve the problem of look-alike cars. Trying to let consumers have new perception, that Cadillac de Villes and Fleetwoods looked like Buick Electras and Oldsmobile Ninety Eights, but they are using different material of construction. So, this choice in alternative will accomplish the objectives necessary to make Cadillac once again profitable.

Questions 1. What is the buyer behavior for the purchase of a traditional luxury car? How does this compare to a functional luxury car?

The traditional luxury car buyer has an average age of between 50-60 years. This group grew up when Cadillac was the standard of the world, before the entry and development of functional luxury cars such as BMW and Mercedes Benz.

In their eyes, Cadillac was the most superior car on the road. It was the mark of distinction and success. This group would want to purchase a Cadillac when they could afford to do so for the following reasons:

a. It would serve as a mark of personal success and accomplishment. It would fulfill the self actualization needs of a lot of them. b. It raises their status symbol amongst their peers who also regard Cadillac as the ultimate luxury car.

The other factor that influences their buying behavior is their perceived qualities that should be found in a luxury car; these qualities are spacious and luxurious interiors, total driving comfort and safety.

All these qualities are incorporated in traditional luxury cars such as Cadillac, Lincolns and Mercury which all provide plush, living room style interiors and smooth rides. In order to analyze functional luxury car buyer behavior, it is best to break up functional luxury cars into two main groups: European and Asian luxury cars.

The main difference in functional and luxury car buyer behavior lies in their requirements from a luxury car: The traditional luxury car buyer places emphasis on luxury and comfort. The functional luxury car buyer places emphasis on car performance and controlled precision driving at high speeds.

Considering this difference, the functional luxury car buyer wants a high powered and responsive vehicle and an interior that is designed to provide him or her with maximum control over the car. Mercedes and BMW models fulfill these requirements as they provide, firm, supportive seating and a controlled ride in an automobile engineered for traveling at high speeds.

Another major difference between buyers of Mercedes, BMW and traditional luxury cars lies in peoples perceptions, or formulated stereotypes of the drivers of these differing luxury car types. Mercedes and BMW have a youth appeal. Cadillac is seen as an old mans car. Buyers of functional cars do so partly because they want to feel or be perceived as young.

Buyers of Mercedes and BMW are fairly affluent people since both these companies have targeted the upper end of the market. Thus European luxury cars are status symbols and are bought to reflect status and wealth by both the already rich and the nouveau riche.

Asian functional luxury cars are much lower down the ranks in price and status than their European counterparts yet they appeal to a certain segment of the market: Buyers who have bought non luxury imports and now can afford to move upscale by buying an imported luxury car. This serves their self actualization needs at a price that they can afford.

Finally most functional cars are smaller and sportier than traditional luxury cars. Functional luxury car drivers would mostly consist of single people or couples without children. Traditional luxury car drivers mostly consist of married people with children.

2. Assess the strengths and weaknesses of competitors. Strengths:

Functional luxury cars are smaller and therefore more fuel efficient.

Functional luxury cars appeal to a larger and younger market which will allow them to maintain and increase existing market share.

Americans have become less patriotic in buying behavior and are purchasing more foreign products which lower barriers to entry into the American market.

Lincoln is very good at copycat technology therefore it is very capable of emulating Cadillac models therefore considerably lowering Cadillacs competitive advantage in the traditional luxury car field.

Lincoln has broken away from traditional market field to the functional luxury car market (Continental) therefore increasing domestic competition.

Mercedes and BMW have significant market shares in many countries worldwide whereas Cadillac is traditionally strong in America. This enables the European companies to generate considerably more revenue than Cadillac which in turn can be used on aggressive marketing campaigns and product development.

Weaknesses:

Foreign competitors can suffer from currency fluctuations. When the currency in the exporting country becomes strong, their products become more expensive to Americans therefore less are bought.

There are many more players in the functional luxury car field which means that not only do functional luxury car makers have to battle for market share from the few traditional luxury car makers but from several equally competitive functional luxury car makers.

Functional luxury car makers will find it very difficult to come toe to toe with the Cadillac brand and to gain Cadillacs existing market share since Cadillac buyers are very brand loyal.

3. What will the competitors behavior be in this market?

Competitors will probably focus more on promoting functional luxury cars that are smaller and therefore more fuel efficient. Oil is already priced at a premium for fear a U. S. attack on Iraq, the world's eighth largest oil exporter, could slash oil shipments from the Middle East, which supplies about 40 percent of the global crude trade. Crude for April delivery traded as high as \$38 a barrel — a level the futures market hasn't seen since the all-time high of \$41. 15 in October 1990. Smaller luxury cars are much more popular in Europe than in the United States.

Competitors try to provide form, supportive seating and a controlled ride in an automobile engineered for traveling at high speeds.

Competitors also launch advertising campaign to promote certified used vehicles. Intended to boost consumer awareness of the benefits of certification, the new work promotes the ease and confidence associated with the purchase of Certified Used Vehicle and reassures consumers that it is the affordable and reliable alternative to buying a traditional used vehicle.

Most of competitors make a wide variety of financing plans available to consumers through their franchised dealers. They offer variety of services:

Traditional Retail Financing

SmartLease

SmartBuy

College Grad Program

Protect Your Vehicle

Insurance

Motor Club

Nonprime Financing

Payment Options

Competitors are serious about e-business. In 2000, Mercedes-Benz created an internal organization that intended to steer the company around costly e-mishaps and toward the best online business practices. The Internet has become a vital tool in a marketer's toolbox. With the E-Commerce Times it is important to define specific objectives for using the Web in marketing campaigns.

Mercedes and BMW have significant market shares in many countries worldwide whereas Cadillac is traditionally strong in America. This enables the European companies to generate considerably more revenue than Cadillac, which in turn can be used on aggressive marketing campaigns and product development. One weakness in GM business is customer relation services. Mercedes-Benz owners rated their cars and dealer services higher than Cadillac owners did when asked to rate level of satisfaction of vehicle ownership and dealer services.

GM is also trying to catch competitors in designing sport cars. BMW and Mercedes-Benz are investing a lot of money to design better and faster sport cars. Since society has changed significantly (people get married later in their life, have kids at their 35), customers characteristics has changed

significantly too. More customers can afford to have only two-seats sport cars, they prefer smaller cars, and cars that are more fuel efficient.

4. Does Cadillacs image appeal to the buyers Cadillac seek?

Cadillac is undergoing a transformation from a product lineup meant for retirees, real estate agents and funeral directors to one viewed credible by pro athletes, movie stars and people under 50. Only recently has the average age of the Cadillac buyer dipped below 60. That's thanks to new offerings like Escalade SUV and CTS sedan. The two are providing 43 percent of Cadillacs sales.

Cadillac just hasn't had the product to live up to the brand image. They are filling up the showrooms with product that is right where the market is: entry-level luxury, SUVs and a high-end convertible.

Cadillac may be trying to follow the lead of successful German luxury marques. The BMW Z3 and Mercedes-Benz SLK have attracted younger buyers into showrooms, and if there's one thing Cadillac needs, it's younger buyers. The Catera has failed in this role, but an "image" car such as the Evoq might just do the trick.

You can roll out all the old stereotypes about Cadillac and toss them into the nearest trash can. This luxury car line is changing — and how!

For Example Cadillac — the CTS. It's designed to compete in the entry level luxury sport sedan category along with the BMW 3 Series, Audi A4 and the like.

The best word to describe this one is “ edgy,” and although Cadillac thought it was taking a big gamble with this car’s up-to-the-minute styling and technology, indications from the market are that it’s a hit. Not only is it a big seller, it also has helped lower the age and income profile of typical Cadillac buyers.

The CTS is powered by a 3. 2-liter, 220-horsepower V-6, and you can get an automatic or, for the first time in decades, a five-speed manual transmission. It’s a rear wheel drive car, which is in keeping with performance car traditions.

The interior is something else — forget looking for a lot of wood and velour. It’s strictly contemporary in graphics, arrangements, amenities and materials.

And while we’re speaking of success stories, how about the Escalade? This one is absolutely the hottest thing on the large SUV circuit — Cadillac can’t build them fast enough. Yes, they are built on similar bodies and platforms as the Chevy Suburban and Tahoe and similar GMC products, but if you think that the story ends there, you’re wrong. The average age of an Escalade buyer is 51, with an average household income of more than \$160, 000. Thirty-five percent of buyers are women, and 13 percent are African American.

This year, a new model, the Escalade ESV, essentially a stretched version of the Escalade itself, is sure to gather attention, and the EXT sport utility truck continues with an upgraded stability system and supplemental brake assist.

New options include XM satellite radio and a rear seat entertainment set-up that uses a DVD system.

The Seville is Cadillac's overture to those looking for European styling and performance in a bigger car.

There's the SLS, a model, which emphasizes luxurious appointments. It has a 275-horsepower Northstar V-8, and for 2003, it gets fog lamps and a grille that will be the same color as the body.

The other Seville is the STS, a full-fledged sports sedan with all the tricks — tougher suspension, performance tuning and the works, including a 300-horsepower Northstar V-8.

When people think Cadillac and what it has meant over the years, chances are the DeVille is the model they think of first. The DeVille is the traditional Cadillac sedan, to be sure, but don't let that word "traditional" mislead you.

The DeVille was restyled a couple of years ago to be quite contemporary looking with a wealth of space-age equipment. It's far more competitive with the European and Japanese luxury car lines than past versions.

Cadillac has introduced the whole line of new cars. They were designed for younger generations and it would take some time that the new Cadillacs potential buyers will get the information and decide to buy new Cadillac car. But we think Cadillacs image certainly appeals to the buyers Cadillac seeks.

5. Does Cadillacs advertising effectively reach the right market and convey Cadillacs desired image?

No, Cadillacs advertising does not effectively reach the right market and convey Cadillacs desired image. One of the most important reason is they spent a lot of money to advertise alike product. They have difficulty to differentiate themselves and the customers, also has difficulty to know the different between the old-day and new design car. In the other words, the design of the car pattern and style are still in the old days. Moreover, the advertising cannot get the attention of the high level customers effectively because the customers always dont know the purpose of advertising. When a new advertising campaign launched, customers cannot able to tell the different between the new model and old model. Besides, it is also hard to see the different between the Cadillac and the Buick or Oldsmobile.

6. Describe a plan of action designed to restore Cadillac brand image, market share, and profitability.

Currently there is an opportunity to capture a bigger share of traditional luxury car market as Lincoln and foreign competitors are focusing functional cars and mix of functional and traditional cars. Therefore, Cadillac should:

- o Focus on promoting the traditional luxury car values (size, coziness, comfortable interior, smooth driving), with limited attention to functionality in our current models except Allante.
- o Increase market share in traditional luxury car market by capturing Lincolns customers that prefer traditional luxury car to functional luxury car.
- o Cut costs from the development of the traditional and functional luxury car mix.

o Spend excess cash to develop in secrecy a more powerful engine for Allante and continue developing Allante as a challenger for purely functional cars.

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