Internationalization strategies: european car makers

The Automobile industry is one of the truly most global industries in the world today. The automobile has changed the lives, culture, and economy of the people and nations that manufacture and demand them. Ever since the late 1800s when the first “ modern” car was invented by Benz and Daimler in Germany, the industry has grown into a billion dollar industry affecting so many aspects of our lives. It covers a global community catering needs which may be common among the entire community or specific to a particular community. It’s challenging for the Managers and their companies to develop a strategy that outrun their competitors and serve their global customer base.

Automotive Industry in Europe at a Glance

The automotive industry is a major industry in the European economy involving a few vehicle manufacturing firms and about 2/3 of the production is outsourced to a substantial number of independent suppliers. The produce includes cars, light trucks and vans, buses and coaches, medium and heavy trucks, motorcycles and agricultural and forestry tractors. A lot of mergers and acquisitions have been the routine of the automotive industry. Currently DaimlerChrysler, Volkswagen (VW), BMW, Ford Europe, General Motors (GM) Europe, Renault, PSA (Peugeot-Citroën), Fiat and Porsche comprise the main EU car industry. Beside them, there are a good number of small manufacturers apart from some Japanese manufacturers’ production facilities in the EU.

The Internationalization strategies by European car – makers

The car industry as a whole is much internationalised as it is easy to do business in different parts of the world. To an extent, a lot of multinational corporations of the industry are heavily based in their domestic markets for several reasons, such as cheaper labour and creating jobs for the local inhabitants. When it comes to sales, the industry is perhaps more global, for example in the USA, one of the top three leading cars – Toyota is a Japanese company that has much of its production facilities and technical development in Japan but according to Data monitor- industry profile. The internationalisation of the industry has a long history as the car industry itself is old and prolific. The American car industry is said to date back to 1908 when the first automobile was built. Internationalisation is slightly older and has been linked with the ending of world war two for the majority of developed countries; however it is a fairly newer concept in emerging markets.

Institutional differences are apparent as many companies entered emerging markets, such as Ford, an American manufacturer, entered many emerging markets such as the Japanese and Chinese.

There are still trade barriers in many parts of the world but not many affect the selling of cars. The speed of internationalisation depends on the country where the car originates. In more economically developed countries it makes sense that the speed of internalisation is fast and furious, for example many countries aspire to live life in the American lifestyle, therefore the sale of American cars in emerging markets occurs at a faster rate than the other way round. Although recent events suggest this is no longer true, as now Japanese cars are outselling American cars in the USA industry.

Japanese internationalisation occurred at a slower rate at first but then it took off as soon as other continents' industries slowed and so Japan were able to capitalise.

Volkswagen- volume and diversity model (Boyer and Freyssenet, 1999)

Toyota- Profit Strategy (Keeping the total cost low, no matter in what market they are operating)

Honda practiced Profit Strategy based on ' innovation and flexibility'. Producing models with distinct features and launching them quickly before the competitors could copy them

Companies such as GM and Fiat have reactivated a strategy based on ' volume and diversity' by increasing the commonalisation of platforms; by re-engineering their equipment-making subsidiaries in such a way as to regain control over the value chain; and by developing employee polyvalence.

PSA tried to implement a strategy based on the ' permanent reduction, irrespective of output, of costs', but the French group had to abandon this orientation when its employees took industrial action, and it has reverted to its previous emphasis on ' volume and diversity'. Ford, which had pursued the same line, shifted towards a ' volume' based strategy, and tried to design and sell world cars, each of which with its own platform. Chrysler was at first unclear about the direction to take, but then made the decision to modify its profit strategy so as to emphasise ' innovation and flexibility' . For

Renault and Rover, quality became the top priority – and each firm has tried to upgrade its market presence, repositioning itself in its segments' top half. Renault subsequently focused on innovation, but has progressively discovered that such an approach would require the complete re-organisation of its corporate structures.

(Boyer and Freyssenet, 1999)

Geographical characteristics of Internationalisation

About 20 yrs back one can argue that the automobile industry was just concentrated in U. S, Europe and Japan. But Due Globalisation and aggressive Internationalisation strategies used the manufacture's, the market is moving towards the developing the economies. Due to recession and saturated market in U. S and Japan the more sales are happening in the developing economies.

Within the EU the top five Automobile producing countries are Germany, France, Italy, Spain and U. K and in the world the top five are Japan, U. S, China, Germany and France.

The European market is the largest markets in terms of production (33%) followed by Japan (20%). Though ACEA 2010 reports states that China will soon overtake Japan and the U. S in terms of Production and sales of Automobiles.

The stats also shows that big markets that once accounted for most of the production and sales are now saturated and diminishing. Manufactures has now moved into the emerging economies to reap the high growth rate and economic conditions prevailing in many of these economies. An e. g. for this is the growing number of production and assembly plants in countries like Brazil, China, India, Mexico, South- Korea, Poland.

Entry strategies by European carmakers

The European drive into central Europe has been spearheaded by Volkswagen and Fiat, both of whom see the region as a vital part of their global strategies, even if managerial resources are being strained in an effort to obtain a return on investment. Eastern Europe’s market can be split into two distinct areas: the Central European Free Trade Area (CEFTA) consisting of Poland, the Czech Republic, Hungary, Slovenia and Slovakia and the rest. Naturally, it is the former that is attracting Western attention, especially as sales in the CEFTA are running at around 600, 000 per annum and are likely to rise at 10 per cent a year for several years to come, with VW and Fiat each commanding 25 per cent of the market. Fiat’s main interest lies in Fiat Auto Poland which it acquired in 1992 through its purchase of Fabryka Samochodow Malolitrazowich (FSM) and since then has exported 50 per cent of output to Western European markets. At the time of purchase FSM was riddled with the inefficiencies commonly found in state-owned automakers in Central and Eastern Europe, but Fiat pledged to invest $2 billion in Poland by the year 2000, and part of this – at the time of writing – is being used to finance production of its Palio models which it hopes to sell worldwide. Turning to Russia, Fiat in 1997 embarked on an $850 million project with ZAO Nizhegorod Motors, owned by GAZ of Nizhy Novgorod to produce 150, 000 Palio units a year. Fiat and ZAO each have 40 per cent of the equity with the remaining 20 per cent funded by the European Bank for Reconstruction and Development (JustAuto. co. 2000; Automotive News, 1996b).

Volkswagen holdings in the East are due to its acquisition of Skoda and the taking over of former Trabant plants in the former East Germany. VW has already diversified and modernised Skoda's model range and will use these to drive into emerging markets in the area, including Russia, Poland and Belarus. Despite the workforce being well educated and skilled, VW did not always find it easy to persuade Eastern workers to adapt to Western production methods and this is best illustrated in its former Trabant plant at Zwickau. The plant was modernised to produce the Polo and Golf models, but workers experienced severe cultural difficulties in adjusting to modern production methods despite being given extensive training. Building a Trabant involved considerable physical effort just to get the body parts to fit together and this gave a sense of achievement for the workers. Though modern technology and lean production methods removed the physical effort, it also took away the sense of pride and it took VW a considerable time to persuade the workforce of the virtues of modern technology. Nevertheless, both Fiat and VW are firmly installed in Eastern Europe and are about to be joined by Renault which has signed an agreement joining forces with the Moscow City Authorities to build cars in an old Moskvich plant. Of the European producers, VW and Fiat are clearly the most dominant in Eastern Europe and, provided resources are not overstretched, will probably gather a considerable harvest in the future compared to their rivals. But the European arms of both Ford and GM are moving in the same direction, too. Besides being established in Belarus and Poland, Ford has formed a joint venture with Bankirski Dom, near St Petersburg and GM have entered into a similar arrangement with AvtoVAZ at Togliatti, 1, 000 kilometres south east of Moscow (Automotive News, 1996b).

Finally, stretching beyond the frontiers of Eastern Europe, European firms are currently attempting to establish themselves in China. It was Peugeot that made the initial running when, in the early 1980s, it formed a joint venture in Guangzhou to produce its 404 and 505 models. Neither vehicle was suited to the Chinese market. They were too large, unsuitable for the roads and considered old fashioned by the Chinese when compared to other Western models. In the end, no more than 20, 000 units were produced in any one year, and in 1998 Peugeot were forced to withdraw from the market. As Peugeot withered in the market, its other arm, Citroen, prospered in a new joint venture at Wuhan where a stripped down version of the ZX is produced in approximately 15, 000 to 20, 000 units per annum, a figure that will rise sharply in the coming years (Donnelly and Morris, 1997). Volkswagen by contrast have been far more successful in its joint ventures with the Shanghai Automobile Industrial Corporation and the First Auto Works at Changchun in Jilinn Province in the north east of the country. Since the mid-1980s, VW has produced its Santana model in China with frequent updating and has recently introduced its more modern Jetta, Passat and Bora models. These ventures have proved successful in that VW have roughly 50 per cent of the taxi market in China, but have yet to obtain any return on their capital as they, like other multinationals in other countries, have discovered the Chinese market is no crock of gold (Donnelly and Morris, 1997, JustAuto. co., 2000c). While other European firms such as Mercedes and Renault have signed declarations of intent with the Chinese and are waiting to see how the market develops, both Ford and GM have moved further down the road and have begun production at Changan and Guangzhou respectively. Similarly, Chinese hostility to Japanese producers has waned and both Suzuki and Toyota have begun to compete in the market. Current opinion is that the Chinese market will grow steadily in the coming century and that it is better to enter this market in its infancy than to hesitate. The ball is firmly in the European court and firms must either gamble now on the prospects of return in the future or they might be too late.

An outline of the main foreign market entry modes and An overview of the enterprise structures and controls used by firms

Ford of Europe was founded in 1967 on a merger between the British and German divisions of the Ford Motor company. Founded in Detroit, Mich., in 1903 by Henry Ford and a group of investors, the company introduced the hugely successful Model T in 1908 and by 1923 was producing more than half of all U. S. automotive vehicles. Through the Lincoln Motor Co. (acquired in 1922), Ford produced luxury Lincolns and Continentals. After years of declining sales, the Model T was succeeded by the Model A in 1927; other companies such as General Motors took the opportunity to make serious inroads into Ford’s dominance. The company was reincorporated in 1919, with Ford and his family acquiring full ownership. Later acquisitions included Aston Martin and the Land Rover brand of sport utility vehicles. Ford also owns a significant share of the Mazda Motor Corp. Because of financial struggles at the beginning of the 21st century, the company sold off Aston Martin in 2007 and both Jaguar and Land Rover in 2008. However, Ford occasionally outsells Toyota in shorter periods (most recently, during the summer months of 2009). As of 2008, Ford has become the second largest automaker in Europe (only behind Volkswagen), with sales that occasionally exceed those in the United States and large markets in Germany, Italy, and the United Kingdom. (PaddockTalk). Ford Motor Co bought into China as a quick and low-cost way of entering the market. In contrast to Chrysler and GM’s JV approach in China, Ford chose to acquire 20% of Jiangling Motor, a relatively small local auto producer. This helped in establishing their presence much quicker than their competitors and removed most of the barriers their competitors were facing such as management control and conflict.

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