

Suffered huge losses



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### **Executive Summary**

Fiat, has suffered immense losses in recent old ages, chiefly due to the weaker economic planetary environment and increased competition. Its immediate lucks are dependent on old trade names such as Punto, Panda, and Croma, and relies chiefly on European markets. To better fight, the company needs to see the affect of the external market forces and align them to its strengths and chances given. Some strategic options have been derived for the Auto division ensuing in recommendation for future development.

### **Introduction**

Fiat Group is one of the largest industrial groups in Italy which has besides extended operations in Western Europe and other states of the World. The group has more than one 100 history ( was set up in Turin in 1899 ) and specialized in the automotive field, fabrication and selling autos, planing, trucks, tractors, agricultural equipment, building equipment, engines, constituents and production systems. ( [www.fiatgroup.com](http://www.fiatgroup.com) ) . In the late 1990s the company found itself in a really hard state of affairs, which threatens its very endurance. Still, the company accounts for 40 per cent of the Fiat Group concern. So it would be a immense error merely to allow the company travel flop. Therefore, the purpose of the study is to clear up the roots of the Fiat Auto ' autumn from grace and to give some recommendations to better the state of affairs.

### **Macro-Environmental analysis**

There are a batch of external forces which impact on organisation 's public presentation. The forces which are general and impact on every organisation

runing in a market are the topic of PESTEL ( macro-environmental ) analysis. More company-specific forces ( largely related to competitory environment ) are the topic of micro-environmental analysis ( Dibb, Simkin, Pride & A ; Ferrell, 2001 ) .

**Political and legal factors:**

- One of the chief political factors is removal of political protectionist policy in conformity with new EU competitory Torahs. During the decennaries Italian authorities has been protecting automotive industry and, particularly, Fiat as the icon of it. But as a member of EU, Italy should follow the Competition Laws and the authorities is blocked from giving province assistance to Fiat without blessing from the EU. Therefore, this state of affairs is non favorable for Fiat because it leaves the company uncompetitive in comparing with other planetary market participants ( inexpensive Korean and Nipponese auto industries ) ;
- On the other manus, gaining the significance if the Fiat Group for the national economic system every bit good inevitable lay-offs as the effect of critical company 's state of affairs, Italian authorities is acute to assist the company through some legal methods ( to supply a deliverance of Fiat via Finmeccanica, an industrial pudding stone in which the province has a 32 % interest through its engagement in Fiat 's industrial and fiscal program or to take interest in Fiat Auto ) ( [www. bbc. co. uk](http://www.news.bbc.co.uk) ) ; This besides means the menace of losing independency from province and authoritiess ' possible intervention

with company 's direction which causes concerns on the portion of the investors ;

- Company 's lay-offs as the portion of its reconstituting cost-cutting program lead to impairment of dealings with trade brotherhoods and work arrests, barricading railroads and expressways held by them to protest against the occupation cut.
- Increased auto revenue enhancements.

### **Economic factors:**

- Economic jobs in some cardinal abroad markets ( Brazil, Poland, Turkey ) lead to decrease in export gross revenues and incur the company in immense losses ;
- Differences in exchange rates ( for illustration, Fiat Auto has its costs in euro and sells its autos in some markets in other currencies ( for case, in USA -in dollars ) . Therefore, it leads to some losses ;
- Unfavorable economic state of affairs in Italy during recent old ages. `` After retrieving throughout 2004, the economic system fell into recession early in 2005 with high unit labour cost growing, euro grasp and other negative minutes "
- Rising steel Monetary values

### **Social factors:**

- Resistance on the portion of trade brotherhoods to Fiat 's cost-cutting scheme affecting cut downing work force ;
- Italian patriotism: Italians do non desire to `` the former icon of Italian industry " to be sold to GM - American pudding stone.

**Technological factors:**

Other auto industries ' high outgo on R & A ; D ( the company can non maintain gait with its chief rivals ' in this field ) ;

As the consequence of the above mentioned factor-lack of inventions.

**Environmental factors:**

Ecological pollution leads to increase in peoples ' ecological consciousness so the clients prefer purchasing little environmentally friendly autos which are less harmful for the ambiance. At the same clip clients start purchasing autos with methane engines so this once more makes the company pass more on invention non to be left back its chief rivals.

**SWOT Analysis****Strengths:**

- repute of the Fiat Automotive Car subdivision as the icon of Italian industry ;
- Italian authorities protectionist policy and back-up ;
- experience gained during decennaries of company 's presence on the Italian domestic every bit good as planetary market ;
- success with the greening of the Alfa Romeo trade name ( successful state of affairs with Alfa Romeo made some of the Fiat 's investors believe that Fiat Auto may get the better of its troubles ) ;

**Failings:**

- damaged repute of some Fiat trade names as holding bad quality ;
- immense losings and debts ;
- hapless budget for research and development ;

- ineffective corporate construction: useless direction reshuffles during recent old ages, excessively many beds, decease of Agnelli, disputes between his dwellers over whom is traveling to take control over the imperium ) ;
- in fight in footings of monetary value
- uniform merchandise: company is non able to show the merchandise which would hold the advantage over the rivals ' merchandises ;

**Menaces:**

- low-priced competition on the portion of Korean and Nipponese auto manufacturers ;
- backdown of Italian authorities protection in conformity with EU competition Torahs ;
- company 's overreliance on the domestic Italian market.

**Opportunities:**

- addition in the synergisms consequence from confederation with GM ;
- enlargement of franchise web ;
- Italian clients ' trueness to Fiats ' trade names ;
- strategic confederations with other auto industry conglomerates which means new beginnings of capital for the company ;
- new attractive turning markets like China which can enable the company to hike its gross revenues ;
- more appropriated and defined cleavage of the company 's clients, possibly switch from mid-size hatchback market to concentration on more moneymaking sections ( high border sections of immature affluent people ) ;
- penchant for environmentally friendly autos ( methane engines ) .

**Industry Analysis ( Porter 's Five Forces )**

Sing with the macro-environmental analysis Porter 's Five Forces will supply us more facets while reexamining industrial factors which influence Fiat 's schemes:

**I. Competitive Competition:**

The degree of competition in the industry is high. There are a batch of houses in auto automotive industry, aside from Fiat Group. Main histrions are BMW Group, Daimler Chrysler, Ford Motor Company, General Motors, Fuji Heavy Industries, Honda Motor Company, Volkswagen, Renault, Toyota Motor Corporation and many others.

**II. The Menace of Entry:**

The barriers for the possible entrants of the automotive industry are rather high and there are some grounds for this. First of wholly, the merchandise criterions are high and tend to increase, the engineering and know-how in the automotive industry are protected by patents and non easy copied which is a clear barrier Of Entry for other car manufacturers. It is besides obvious that the industry requires extremely specialised engineering. Finally, High fixed costs in the automotive industry consequence in an economic system of scale consequence that increases competition and elevates the barriers of entry for new officeholders.

**III. The Power of Buyers:**

Buyers of Fiat Auto are non powerful. Company distributes its cars through broad web of traders in Italy, the remainder of Western Europe, Brazil and Poland. At December 31, 2002 the Group 's worldwide web consisted of 3195 trader. ( [www.fiatgroup.com](http://www.fiatgroup.com) ) Therefore, such a important figure of Fiat 's

Auto Division purchasers means that they are non concentrated and have no peculiar influence on monetary value. Switch overing costs for purchasers are important ( they can non easy exchange to another merchandise ) which besides means that purchasers are comparatively weak. Furthermore, purchasers are non influential plenty to endanger to buy Fiat Company. On the other manus, Fiat Company has the resources to purchase out its purchasers.

#### **IV. Menace of replacements:**

Substitute merchandises refer to merchandises in other industries. For autos utility merchandises are bikes, bikes, and other agencies of conveyance. For some markets such as Norse states, UK, Asiatic states this menace is considerable.

#### **V. The Power of Suppliers:**

We can see the companies supplying Fiat Auto with the constituents to be the company 's providers. So, one of the chief Fiat Auto provider of the constituents is Magneti Marrelli Holding S. p. a. This company is entirely owned subordinate of Fiat. Magneti Marelli besides supplies constituents to other auto shapers as Opel, GM, Peugeot PSA, Renault and others. ( [www.fiatgroup.com](http://www.fiatgroup.com) ) . So, companies providers ( at least, one of them ) are weak and there is an illustration of backward integrating.

( Johnson and Scholes & A ; Whittington, 2002 )



### **Strategic options And Recommendations**

In visible radiation with the macro-environmental and industry analysis, we enhance FIAT 's scheme by sing possible strategic options positioned in the Porter 's Generic:

First of all, Fiat could concentrate on more differentiated merchandises. It can pull off this by bettering merchandises, bettering quality, invention and, in bend, high outgo on R & A ; D. The company should supply for broader scope of merchandises by agencies of more alteration of the same trade name and concentrate chiefly on little autos for households section ( where it has competitory advantages historically ) . More over, the company should pay more attending to lucidity of its trade names ' image and besides to specify better its mark audience. All trade names should be separated ( particularly, those - in high-margin sections ) .

On the other manus, Fiat could besides concentrate on cost leading scheme to better its fiscal province. The company could pull off this by many ways. First of all, in order to derive entree to fresh capital, cut downing excess capacity and regenerating a weak merchandise offering the company can tilt to external injection through strategic confederation with some other auto maker. The company besides can do the extremist determination and sell off its concern to General Motors harmonizing to Master Agreement between two auto makers. Yet there Fiat can besides make ventures with other large auto manufacturers, including Ford, PSA Peugeot, Citroen, Suzuki and the Indian group Tata Motors. These confederations can be created in little auto section ( Fiat Panda ) and license to portion fiscal and industrial resources of both companies and utilize the synergisms consequence. ( [www. carkeys. co.](http://www.carkeys.co)

uk ) The company besides can derive hard currency through perforating into new markets and obtaining net incomes in the hereafter but this option requires a batch of initial resources, selling research and can be considered in the long term prospective. Finally, Fiat can verge to cut down overcapacity which would be easier and effectual to exert but besides implies some "painful steps " like cutting work force, direction 's restructuring ( doing it less bureaucratic, taking several beds of direction in order to rush up procedures ) . It is besides includes stock decrease, utilizing new production engineering every bit good as bettering dealings with its traders and providers to obtain price reductions.

### **Decision**

Having conducted the analyses, It can be concluded that though Fiat Group, in general, and Fiat Auto Division, in peculiar, had a batch of jobs and in 2004 once more Fiat Auto registered runing loss of 840 million Euros ( www.fiatgroup.com ) , there is still a possibility that the company can get the better of its troubles and turn into the profitable concern. Harmonizing to PESTEL, there are many negative environmental factors discouraging Fiat from making good, but at the same clip there are some factors which provide for the chance to retrieve and they can be used to the company 's advantage. SWOT analyses can show clear image of companies strength and failings and what is more of import external factors: menaces and chances. Five Porter 's Forces analyses is besides relevant because it helps to analyze the competitory environment in a peculiar industry Finally, taking into history all the information got from the analyses, it became possible to supply strategic options for the company based on Porter 's Generic. Besides, some

utile recommendations are made for the company to implement. In order Fiat Auto to derive its power in the car industry the company should concentrate on one of the waies.

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