

Business and management essay sample



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Q1. I wanted you to begin by recognising that this was a turnaround situation, with Ducati in 1996 close to bankruptcy. A new management team led by Minoli changed strategy with clear objectives of aggressive growth within a niche of the sports segment and competing as a focussed differentiator. The logic of the turnaround can be conceptualised as follows

(a) Ducati reduced costs without affecting the WTP for the physical product (i. e. the quality and reliability of the product has increased despite reduced costs). Major reductions were in motorcycle material costs (from 68. 2% to 59% of unit costs, exhibit 12) and can be attributed to the following factors:

- (1) rationalised suppliers from 200 to 130 with the effect of increasing the quality of suppliers and Ducati’s bargaining power
- (2) Ducati increased its outsourcing from 80% to 90% and thus tapped more the potential of the Emilian mechanical district
- (3) Ducati further increased its bargaining leverage by instituting dual sourcing for the major components of the motorcycle and adopted short-term contracts
- (4) Ducati enjoyed economies of scale by increasing output from 12000 bikes in 1996 to 39000 in 2000
- (5) Ducati increased the standardisation of its products (parts) and thus increased the bikes produced per worker from 76 to 87 in 200 (14% increase) (exhibit 13).

(b) Ducati increased costs to boost WTP for the product’s intangible aspects (i. e. sport character, community, design, exclusivity, Italianess, tradition etc).

The essence of the turnaround was the decision to focus on the intangible attributes while not compromising the physical ones. (1) Ducati increased fixed sales costs by creating the ‘ world of Ducati’ and investing in Ducati owners clubs (increased sense of community), the museum (emphasised the

sport character and tradition), targeted advertising and co-marketing initiatives that reinforced its identity and link to its core customer target group.(2) Ducati radically changed its distribution strategy to ensure it is aligned to the WTP attributes by (a) ensuring dealers pay closer attention to their customers by carefully selecting dealers and reducing the number of dealers but increasing the number of registrations per dealer (from 14 to 150 registrations per dealer on average) (b) by building a network of mono-franchise dealers and own stores and thus ensuring that the stores had a consistent message of its new positioning. (3) Ducati increased R&D fourfold by establishing an internal design and thus getting full control of the quality of its design activities and reducing dramatically the time to market for new product launches.

(c) Aggressive growth strategy: students would have got even higher marks if they had noted that Ducati's average price premium went down over the period despite an increase in WTP as a ploy to increase market share.

Secondly, Ducati broadened their customer base (from the core extreme) by attracting relatively inexperienced bikers (with the 'naked' motorcycles at a lower premium but made money from them by selling expensive apparel to them). Q2. I wanted you to communicate conceptually how the combination of trade-offs and fit can protect a company from imitators. A company like Honda might be tempted to enter Ducati's niche of the sport segment. However, incompatibilities between Honda's activities and the activities required to attack Ducati will likely arise to make this attempt challenging. This problem is exacerbated by the possible incompatibilities between Honda's image and reputation and that of Ducati's. Having raised these

points, explain how Ducati's positioning is that much more pronounced relative to Honda's in terms of its lifestyle and performance attributes and its associated tightly interlocked activities.

Then develop an argument that clearly states that the incompatibilities wrt intangibles between Honda and Ducati are so severe that if Honda were to try to create a community and emphasise heritage etc, it would confuse its own customers and maybe undermine its own reputation. Mention also other incompatibilities wrt activities and resources (e. g. distribution systems, organisational culture, management and technical skills etc) which cannot be easily changed by Honda. Also explain why setting up a separate entity as a way for Honda to mitigate these incompatibilities is fraught with difficulties such as time lags and the need to share resources and transfer knowledge etc. With these types of arguments, the conclusion would be that Ducati's strategy is sustainable. Q3. Developing strategic alternatives depends on the objectives to be achieved and the companies need to sustain competitive advantage whilst achieving these objectives. These issues in turn depend on the key strategic challenges the company is facing internally (areas of vulnerability) or external threats and the available opportunities to exploit. A key objective for Ducati is to maintain double digit growth (10% market share).

However, a key constraint for focussed differentiators is that the very factors that brought them success i. e. clear trade- offs and positioning also constrain growth because growth/strategy options may be incompatible or inconsistent with their original strategy position. Another challenge for focussed differentiators is that their small size places them at a cost

disadvantage. Ducati's fixed costs per unit were 26.2% of revenue versus 16% for HD (exhibit 12). In addition achieving the level of success Ducati aims for will certainly risk attracting tough competition into its segment. There are opportunities to grow available within the sports segment by (1) fully globalising their particular niche of the sports segment into other geographical regions such as Asia etc. (2) broadening the target customers to include new emerging groups such as women (3) increasing the apparel business further than it is because it well below that of HD in size (4) diversifying into attractive adjacent segments such as the cruiser segment. This analysis summarises the strategy alternatives into two growth options (1) stay within the sports segment and grow and (2) diversify into the cruiser segment.

Wrt cruiser option, you can start by doing some numbers to show the attractiveness of the option (see class slides). The payback amount of bikes is quite small around 8500 bikes out of a market of 400 000 bikes. In addition, you can note that Ducati has technical advantages that would confer a competitive advantage technically in the cruiser segment. The real danger to point out is that by entering the cruiser segment, Ducati might blur its position in its core market. Ducati may alienate its core customers because it may have to tweak some of its activities to accommodate the cruiser e. g. in distribution, in special events etc. This leaves you with option 1. Q4. You may want to recommend that Ducati adopts the strategy option of staying within their niche of the sports segment but globalise it more fully and at the same time increase its presence in the complementary apparel business and target more women etc. A key argument for this strategy

option is that it is broadly consistent with its original position and is unlikely to create any incompatibilities with respect to its image and reputation, activities and resources.

As porter (1996) argues, such a strategy option deepens Ducati's positioning by improving the degree of fit and accentuating the trade-offs vis a vis competitors – a key factor in further sustaining its strategy position. This strategy option solves the key weakness of Ducati of high fixed costs by providing economies of scale opportunities but risks attracting the wrath of the established companies such as Honda. However, the assumption is that Ducati has now done enough in terms of trade-offs and positioning to get some protection from the bigger companies. You can add a couple of lines in Q3 or 4 to substantiate arguments with references from the case. I expect your write-up to include proper referencing as usual. Here I am just pointing out the many areas of argument as I would have expected from you. Some of these issues are also in the slides.

1) How did Ducati become the second most profitable motorcycle maker in the world despite its small scale? What is the fundamental economic logic of Minoli's turnaround. The operational effectiveness was the key factor to gain the second most profitable motorcycle maker. 🌩 Platform based approach to production caused more efficiency with economic of scale 🌩 Standardizing of products using two crank cases and three cylinder heads creates efficiency gains in manufacturing. 🌩 Play the strategy of outsourcing about 87% of production activities related to spare parts while maintaining core competencies activates like R&D, design, quality control, and key trade market component machining in house resulted in flexibility in new part

productions

- Establishing a quality control system focused on improving reliability and overall quality. The fundamental economic logic of Minoli's turnaround was as follow
- Identified the capabilities and core competencies to start the turnaround.
- Refresh and recapture Ducati brand and expand the customer base which used to be limited to the expert rider.
- Improve the production process

- Improve motorcycle design.

2) Can Ducati sustain its position in the sport segment? Can Honda and the other Japanese manufacturers stop its growth in this segment? Yes, Ducati can sustain its position in the sport segment of motorcycle if the management keep the current trend for theses reasons

- Ducati has a good position in the sport-bike segment with valve control system which provides the unique sound.
- Good reputation due to the performance in the international racing circuits. Keeping good performance will help to sustain and increase the demand for the company's products
- The sustainable improve of the distribution strategy to maximize retail sales and increase the company awareness of the its retail customers need. In the sport motorcycle industry; Ducati manufacturing sophisticated motorcycle and there no big gap between Ducati products and the Japanese products. Thus there are such way the Japanese motorcycle manufacturing can takeover Ducati and stop its growth.

3) What strategic alternatives are available to Minoli in 2001?

- Focused Market Nich strategy

- Continue to excel in advance engendering and overall technical excellence based on the good result of decade of consistent design and technical innovation such as the Desmodromic valve control system, the L-

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twin engine. ☞ Continue renovate existing model, launch new models, and eliminate models that reached end of their lifecycle. 4) Which alternative would you recommend? Why?

I recommend a combination of maintain and protect Ducati market Nich and continue to excel in advance engineering. They need to maintain the target market Nich because high performance motorcycle is what has been recognized by customer. At the same time they need to excel in advance engineering to stay presence in the sport motorcycle.

A worldwide motorcycle icon that had been in business since 1926 was on the verge on bankruptcy in late 1996 before it was purchased by the Texas Pacific Group. Frederico Minoli was widely known as being a turnaround experience expert, and he already had previous experience with a Texas Pacific Group partner named Abel Halpern. Minoli's reputation and Halpern's previous involvement with Minoli made it a seemingly easy decision to bring Minoli on as the CEO of Ducati. Minoli started at Ducati with two precise goals: he wanted to attain double digit growth and he wanted to rival Harley Davidson's profit level of around 20%. When Minoli took over as CEO of Ducati, there was a clear absence of a strategic plan as well as non-existent functional divisions within the company. This lead to what Minoli termed " a structured chaos" and was not a foundation for a successful company. Despite these conditions, Minoli found that Ducati had good products, top-notch engineers in both the retail and racing divisions, and very large potential. Before talking about Minoli's strategy for the Ducati turnaround, I think it is appropriate to perform an industry analysis on the motorcycle industry using the Porter five forces model.

The threat of new entrants which would be large enough to cut into the profits of the motorcycle industry is fairly low considering how much startup capital is necessary to produce bikes. The end of the case mentions that for Ducati to develop a cruiser it would take over Euro 43 million, so the barriers to entry can be very discouraging for potential entrants. The motorcycle industry seems to rely heavily on brand name and loyalty so an unknown brand would have a very hard time relative to the larger, more established companies. Many of the large Japanese motorcycle companies enjoy benefits from economies of scale, so they are able to charge lower prices than smaller producers. The threat of substitutes in the motorcycle industry is low. Few people buy motorcycles simply because they can be a cheaper alternative to a car or for their increased gas mileage, fundamentally due to the safety issues and practicality issues that motorcycles can present. This demonstrates that most purchasers want a motorcycle because of the entertainment and lifestyle that a motorcycle can provide. The power of buyers in the motorcycle is fairly high mainly due to the low switching costs and many different brands to choose from.

It does not cost consumers any money to switch from one brand to a different brand. The numerous Japanese producers also afford consumers the opportunity to shop multiple brands and purchase motorcycles at cheaper than average prices. The bargaining power of suppliers is fairly low in this industry largely because of the large number suppliers. Common metals, carbon fibers, and rubber are the main components of motorcycles, and these things are very easy to attain. This affords the motorcycle companies many options to choose from so they can drive down prices in the market.

The last force in the five force model is the rivalry inherent in the industry. The competitiveness in this industry is fierce since there are many producers who are making comparable products. In certain geographical regions, particular companies (Harley & the United States, BMW & Europe) already seem to have a firm grasp on very profitable niche markets, so there are many companies striving to attain remaining market shares and also encroach into these almost monopolistic markets. The first piece necessary to initiate a turnaround is to identify why a company is not having success. As mentioned in the opening paragraph, Ducati was struggling chiefly because it was lacking a strategic direction and functional divisions.

The next portion of a strategic turnaround is the retrenchment phase. Minoli was faced with the challenge of putting the downward spiral to an end and returning Ducati to a widely recognized brand. Minoli thought Ducati would greatly benefit from trying to reach a wider range of customers instead of the almost extensively racing fan clientele that it was currently serving. Ducati was competing in only three of the large displacement motorcycle segments. A year after Minoli became CEO Ducati released its first sport-touring segment. The sport-touring segment had the highest average age range for consumers, so Ducati's breaking into this market allowed them to reach new consumers comprised of generally wealthier customers. The next big decision Minoli tackled was where to invest its remaining capital. The production facilities Ducati used were in pitiful shape, so spending money on facilities seemed like a worthwhile endeavor. Minoli made the challenging decision to forego spending on the facilities and spend the money on brand management. He wanted to make the move from strictly a motorcycle

company to an entertainment company. This strategy turned into what later became “ The World of Ducati” and what was essentially responsible for the company’s future success. A necessity many companies are often faced with is cutting costs. In 1996 Ducati already outsourced almost 80% of its production activities due to lower labor costs.

Ducati increased outsourcing to 87% of all production activities with intentions of raising that figure to over 90% in the near future. This increased outsource of labor allowed Ducati to cut expenses. Ducati was also able to accomplish lower costs due to specialization and efficiency. In 1999 every Ducati motorcycle used only two crank cases and three cylinder heads. This allowed for increased worker productivity since they were able to concentrate on fewer parts; this was evident when the number of motorcycles produced per worker increased from 76 to 87 in only three years. The last move that Ducati made in the production segment was reducing suppliers. Ducati reduced its number of suppliers from 200 to only 130. They put suppliers through a more rigorous screening and quality control procedures. Ducati also converted from long-term supply contracts to strictly short-term contracts. This allowed Ducati to easily switch suppliers if they were not satisfied with their performance. The shorter supply contracts and fewer suppliers allowed Ducati to produce higher quality and more desirable products without having to significantly raise production costs.

The last key aspect of the production process Ducati improved was its in-house development and R&D. Ducati switched from external design to an in-house Ducati Design Center. This allowed for a greatly reduced time to market for products which allowed Ducati to capitalize on products earlier

than in prior releases. Unlike most bike distributors, Ducati decided to focus on quality of retail stores instead of quantity of retail stores. Ducati wanted knowledgeable salespeople and respectable technical assistance. This was important in brand loyalty as customers felt more like a more integral part of the company as opposed to just a commission. The last phase of a strategic turnaround is the recovery phase which focuses on long-term profitability, growth, and market share.

“ The World of Ducati” was their way of increasing consumer loyalty. Ducati soon allowed for a more interactive racing experience which permitted fans and customers to experience things never before made available and making them truly feel like a part of the experience. The Ducati museum, over 400 Ducati motorcycle clubs, Ducati centered events and Ducati website were also measures which allowed customers to live the desirable Ducati lifestyle that Minoli initially dreamt up when he first entered the company. This highly sought after all-encompassing Ducati experience allowed them to charge higher prices and greatly increase customer loyalty while also cutting costs. This allowed them to rival Harley’s profit levels by widening the gap between willingness to pay and relative costs.