

Case Studies on European Automobile Industry

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OVERVIEW

Automobile industry, with a history of over a century, often epitomises the industrial growth of an economy and Europe is no exception to it. To keep pace with the changing market conditions, the industry continued to undergo various transformations and structural adjustments at different time periods. Foremost of all was the transition from craft production to mass production at the dawn of the 19th century that led to drastic increase in production capacities.

The concept of mass production was immensely successful in the initial years when customers queued up to drive their favourite vehicles. However, the situation changed slowly with factors like changes in customer preferences – in terms of performance, style and fuel economies, competition from US and Japanese automobiles and external factors like rigid government policies and economic fluctuations.

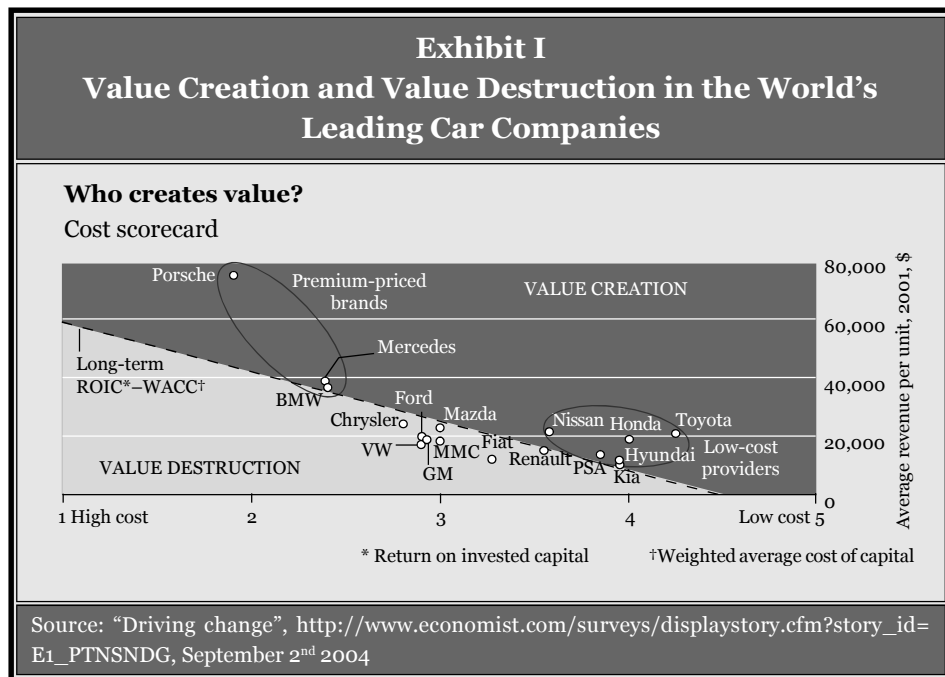
Despite these challenges, European automobile companies like BMW, Volkswagen, Daimler-Benz and Fiat proved their competence by leveraging on their strengths in style, design and engineering. They quickly achieved production efficiencies from specialised products by offering varied technical solutions to a wide range of design requirements related to diversified demands of the customers. Such in-house capabilities coupled with strategic alliances and sub-contracting to suppliers helped them win greater market share than their US rivals.

However, the Japanese automobile companies like Toyota, Honda and Nissan challenged the European dominance by developing new manufacturing techniques like lean production. Such innovative practices helped Japanese producers not only to focus on higher volumes but also to develop high degree of flexibility in production runs and ensure high productivity with high quality products.

European companies in turn tried to close the productivity and quality gap with the Japanese by implementing lean techniques but the latter continued to dominate the global automobile industry through radical technological and organisational innovations. The Japanese derived substantial economies of scale by leveraging on in-built strengths like shorter production cycles and higher productivity, which helped them exploit not only the fragmented global automobile markets but also carve a niche for themselves. The Japanese, who were until then known for small cars, turned their focus to sports and luxury cars and models like Toyota's Lexus, Honda Legend and Nissan Infinity entered the luxury segment posing a significant threat to European as well as US counterparts.

A survey on the financial performance of the world's leading car companies by Goldman Sachs revealed that out of the global 17 car companies, only half were able

to earn in excess of their cost of capital. European carmakers Porsche, the Mercedes bit of DaimlerChrysler, BMW and Peugeot and Asian Toyota, Nissan, Honda, Hyundai and Kia were the value creators; while others like Detroit's Big Three, Europe's Renault, Fiat and VW and Japanese Mazda and Mitsubishi were in the value destruction group (Exhibit I).



Hence, the European automobile companies were pressurised with the need to explore new growth avenues – both domestic and global – and win over competition by focusing on a Pan-European-based production.

With a collection of 12 case studies, this book deals with various challenges confronted by major European automobile companies like BMW, Daimler-Benz, Volkswagen, Renault, AvtoVAZ and their restructuring and turnaround initiatives. The case study, *The Fiat Group: Rebuilding its Car Business*, for instance, talks about the falling fortunes of the Italian automobile giant owing to intensified competition and how Sergio Marchionne relaunched the group by introducing a 3-year industrial plan.

Likewise, the two case studies, *DaimlerChrysler's New Challenge: Saving the Merger* and *Daimler-Chrysler to DaimlerChrysler: Dieter Zetsche's (the new CEO) Restructuring Strategies*, elaborate on the historical cross border merger between the

US' Chrysler and Europe's Daimler-Benz and the combined entity's efforts to improve performance and profitability.

Another case study, *Audi's New Marketing Strategy: The Audi Channel*, highlights Audi's differentiated approach in promoting its vehicles by launching a digital satellite television 24-hour entertainment channel featuring infotainment and general entertainment programmes related to Audi products. Other case studies focus on issues like launching low-cost affordable models and rebuilding brand image.

The book as a whole provides comprehensive outlook on the European automobile industry and the players' competitive and restructuring strategies not only in fending off competition from domestic as well as international players but also in exploring sustainable growth avenues.