

# Driving Impaired



General Motors

## Integrative Case Analysis

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## **Executive Summary**

General Motors is a corporation in peril. The corporation's core business of manufacturing cars, trucks and SUV's has been incurring significant losses for several months. Competitive pressure from Toyota has exposed major weaknesses in GM's competitive advantage, and the Japanese auto-maker is poised to replace GM as number one in the industry.

This analysis will address the corporate-level by discussing the weaknesses within the mission statement, vertical integration, diversification, issues regarding strategic alliances, business units that add and detract value from the corporation, and a full financial analysis of the corporation over the past three years.

Following the corporate-level analysis, Chevrolet will be analyzed at the business-level by examining the internal strengths and weaknesses, external opportunities and threats, core competencies, generic strategies and relationships between the variables. Further analysis of Chevrolet as a division will include an application of the five forces industry model, the ability of the business to deal effectively with external opportunities and threats, and a discussion of whether or not Chevrolet has a competitive advantage.

The analysis will conclude with specific recommendations for the corporation intended to reinvigorate General Motor's core businesses.

## Section 1: Corporate-Level

### Part 1: Brief History of G.M.

In the early years of the auto industry, hundreds of carmakers each produced a few models. William Durant, who bought back a failing Buick Motors in 1904, thought that manufacturers could benefit from banding together and formed the General Motors Company in Flint, Michigan, in 1908. Durant bought 17 companies (including Oldsmobile, Cadillac, and Pontiac) by 1910, and in that year a bankers' syndicate forced him to step down. In 1915 he regained control when he formed a company with racecar driver Louis Chevrolet. They soon formed GM Acceptance Corporation (GMAC, financing) and bought other businesses including Frigidaire (sold in 1979) and Hyatt Roller Bearing.

With Hyatt came Alfred Sloan (president, 1923-37), who built GM into a corporate powerhouse using a decentralized management system. Unlike Ford, which offered cars in any color you liked as long as it was black, GM offered a range of models and colors; by 1927 it was the industry leader. It bought Vauxhall Motors (UK, 1925), merged with Adam Opel (Germany, 1931), added defense products for WWII, and diversified into home appliances and locomotives.

In the post-war boom years GM expanded with the nation; the good times rolled until Japanese automakers became established in the 1970s. GM spent much of the decade trying to copy the Japanese, while making its cars meet federal pollution-control mandates.

GM and Honda inked a deal late in 1999 for Honda to supply V6 engines and transmissions for GM while Isuzu Motors supplies Honda with diesel engines. GM also bought the rights to the Hummer brand from AM General. The next year

GM acquired the 50% of Saab Automobile that it didn't already own (from Investor AB) and acquired a 20% stake in Fiat Auto (Lancia and Alfa Romeo, but not Ferrari and Maserati) in exchange for a 5.6% Fiat stake in GM. GM also acquired a 20% stake in Fuji Heavy Industries (Subaru).

President Rick Wagoner replaced Smith as CEO in June 2000. Also in 2000, GM and Fiat entered talks to acquire Daewoo Motor after Ford withdrew its bid for the embattled, and now bankrupt, South Korean carmaker.

As 2002 wound to a close a troubled Fiat sold its entire stake in GM to an unnamed investment bank for nearly \$1.2 billion. In 2004 GM wrote its first car loan in China through a joint venture with its Chinese partner Shanghai Automotive Industry Corp., and in so doing became the first western car company to offer auto loans to Chinese consumers.

Later in 2004 billionaire Kirk Kerkorian, through Tracinda, purchased a 3.9% stake in GM as the carmaker's stock price took a nose-dive resulting from poor profits and a junk credit rating. Kerkorian later increased his ownership to just over 9%.<sup>1</sup>

Most recently, GM has struggled in 2005 to compete with their Japanese counterpart Toyota. The struggle has in part been due to slumping SUV and truck sales because of higher fuel prices. However, most of the struggle is the result of questionable leadership and organizational underperformance.

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1. Hoovers.com and GM company website

## Part 2: Corporate-Level Analysis

1. Does the corporation have a formal mission statement? Does it define the corporation, provide a vision, and articulate the corporate philosophy? Give examples. If it doesn't have a mission statement, explain the impact on the company of not having one (be specific).

General Motor's vision is to....

*Be the world leader in transportation products and related services. We will earn our customers' enthusiasm through continuous improvement driven by the integrity, teamwork, and innovation of GM people.* While GM doesn't call it a mission statement, they might as well because it contains most of the mission statement elements.

This statement is clear and matches the public perception of GM and what it does. It is communicated in the statement what needs are being met, whose needs are being met, and how they will be met. The need is transportation, primarily private. Of course GM wants to satisfy the transportation needs of anyone with enough money and/or satisfactory credit to buy their products, a.k.a. the end customer. And they plan on accomplishing this "through continuous improvement driven by the integrity, teamwork, and innovation of GM people."

The statement provides the vision of being "the world leader in transportation products and related services."

The corporate philosophy is where the statement is lacking. There are too many permission to play values; for example, integrity is a very basic

expectation to have in business. A company should assume their employees will do what they say they're going to do and be as honest as possible in the mean time. Similarly, a company should expect teamwork, clearly in order for a firm to compete in a global marketplace communication and teamwork is a basic assumption.

The statement should reflect deeper values, say core or aspirational values. For example, the statement could contain a sentence or two that acknowledges the central role the auto industry plays in damaging the environment, and what GM will do to minimize this effect.

**2. Is their mission statement appropriate for them? Explain. If it doesn't have one, write a good one and explain why yours is appropriate.**

Yes, I suppose the statement is adequate and appropriate for GM. However, I do suggest that the company actually call it a mission statement, just to reduce the confusion of people trying to locate it. Also, the company should position the statement on their website so that it is prominent and/or easily found, like in a big font on the homepage. If they did this, everyone would know what GM exists to do - it wouldn't be hidden.

As mentioned in part 2, question 1 the statement would be more appropriate if GM made a statement to consumers that they're aware of the state of the environment and the role that their products play in creating that state. They could acknowledge this in any combination of three facets: first, the depletion and eventual absence of fossil fuels; second, the methods of extraction of fossil fuels and their implications on the environment; and third, the role their products play in decreasing the air quality around the world. In addition, they should include what they're doing about it.

The following is an example of a better mission statement.

Mission Statement-

Be the world leader in transportation products and related services. We will earn our customers' enthusiasm through continuous improvement driven by GM people. GM is aware of the impact of GM products on our Earth and environment. We will continue to devote resources to researching and developing ways to decrease our negative impact on our environment.

**3. How vertically integrated is the corporation? If it is vertically integrated, is it pursuing a strategy of taper or full integration? Give examples.**

Prior to 1999, GM was vertically integrated to a higher degree than it is now. In 1999, General Motors spun off their main in-house parts maker, Delphi and began a supplier diversity program that decreased the level of vertical integration within the corporation. GM spun off Delphi for many reasons, such as: they wanted to achieve lower costs through supplier diversity, they needed to cut ties with the labor force of the parts maker to reduce pension benefits payable to them, and they wanted to be less vertically integrated. Today, GM relies heavily on outside suppliers for parts in their lines of cars, trucks and SUV's. For example, The Bing Group supplies steel stampings, seat systems and mirrors for a variety of GM vehicles.<sup>2</sup> Also, Delphi (nearing bankruptcy) still furnishes anything from navigational systems to steering and braking components.

GM manufactures some of their own components like Allison® transmissions, Duramax® diesel motors, Northstar® and Vortec® engines, and OnStar® emergency systems.

GM follows a strategy of *taper vertical integration*, because they produce some of the inputs for their vehicles. This concept is illustrated simplistically when a Cadillac is produced; Delphi (an outside supplier) would manufacture the navigational system, another company like The Bing Group (an outside supplier) can supply the seating and the motors that let the driver adjust the seats, many other suppliers would supply the rest of the parts, GM would provide the Northstar engine and assemble the vehicle.

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2. [http://www.gm.com/company/gmability/workplace/100\\_news/120\\_news/minority\\_supplier\\_spending\\_032204.html](http://www.gm.com/company/gmability/workplace/100_news/120_news/minority_supplier_spending_032204.html)

**4. How diversified is the corporation? If it is diversified, are there gains achieved from relatedness? Alternately, if the company is pursuing unrelated diversification, what benefits or losses is it experiencing from this approach?**

**Explain.**

General Motors is diversified throughout the transportation industry, that is to say that GM is pursuing related diversification. But, there are some exceptions: GM also has a few subsidiaries through their financing business General Motors Acceptance Corporation (GMAC) that are unrelated to the transportation industry.

Buick, Cadillac, GMC, Saturn, Pontiac, Chevrolet, Hummer, SAAB, Vauxhall, Holden, and Opel are the brands of vehicles that GM owns and operates. GM also owns AC Delco which manufactures and distributes after-markets automotive parts. GM Goodwrench certified service for GM vehicles, GM Certified Used Cars, GM Defense, and GM Fleet are other businesses clearly related to the transportation industry.

One example of unrelated diversification that GM uses is "its fast-growing Ditech.com online mortgage subsidiary"<sup>3</sup> through their lending arm GMAC. Another example is GMAC Commercial Holding Corporation (GMACCH) which has nothing to do with the automotive or transportation industries. Through this arm of GMAC, the company participates in the commercial mortgage industry.

"GM sold 257,623 vehicles last month, compared with 346,058 in the same period last year. GM's light truck sales, which include SUVs, pick-up trucks and minivans, sank 30 percent in October." GM has the overwhelming majority of

their eggs in the automotive industry basket, which makes them vulnerable to shifts in the external environment. "Aftershocks from the recent hurricanes, fuel prices that are turning car buyers away from gas guzzlers....have been cited as factors that hurt U.S. vehicle sales last month."<sup>4</sup> When sales are up there are gains realized from GM's related diversification strategy, alternately when sales are down there are often losses.

GMAC, "which last year earned \$2.9 billion, or about 80% of GM's total net income,"<sup>5</sup> has been rather profitable relative to GM. GMAC is helping GM keep their head above water while sales in North America are declining. This is absolutely a benefit of pursuing a little unrelated diversification.

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3. FOR GM, MORTGAGES ARE THE MOTOR But how long can it rely on profits from its finance unit? David Welch in Detroit. Business Week. New York: Aug 4, 2003., Iss. 3844; pg. 36

4. [http://money.cnn.com/2005/11/01/news/fortune500/auto\\_sales.reut/](http://money.cnn.com/2005/11/01/news/fortune500/auto_sales.reut/)

5. Should GMAC Go on the Block? Lee Hawkins Jr.. Wall Street Journal. (Eastern edition). New York, N.Y.: May 25, 2005. pg.C.1

**5. Is the corporation transferring skills, realizing economies of scope, and/or achieving efficiencies through strategic alliances? If so, discuss the key relationships in terms of benefits gained by both partners.**

General Motors has not had a celebrated history of successful strategic alliances. One of the most recent examples of their failures in alliances is demonstrated by the collapse of their partnership with Fiat Auto, formed in 2000 and ended in February of 2005. The two companies had been collaborating on such items as power-train production and purchasing strategies. Originally the agreement was to produce benefits for both parties. GM was to gain more insight into the production methods of small diesel powered engines which are popular in Europe. GM would then incorporate the design into its European lines in an attempt to gain market share. Fiat, a struggling Italian automaker, had seen sales decrease at an alarming rate over the past decade and needed the injection of General Motors money to ensure survival. The four year agreement between the two automakers failed to produce the more complex desired results and was ended in February of 2005. However, when the dust cleared Fiat had more money in the form of a settlement of \$2 billion and GM had the small diesel motor.

Moving forward into the next decade a vital source of competitive advantage will undoubtedly be the success of automakers ability to capture the hybrid/hydrogen fuel cell vehicle markets. It is for this reason GM announced in October of 2005 plans for an alliance with SAIC Motor Co., a company owned

by the Chinese government, to study production methods for gasoline-electric hybrids and other low-pollution vehicles in China.<sup>6</sup> The agreement calls for plans to develop a fleet of environmentally friendly buses for the Chinese government in addition to hybrid and hydrogen fuel cell passenger vehicle production. GM will be able to make strides on the learning curve of eco-friendly vehicle production, and if successful will be in a position to tap a vastly growing market for vehicles in China.

China, on the other side of the agreement will realize environmental benefits in addition to the

obvious financial gains from SAIC Motor. The sheer physical size and population of China produces a very real and scary scenario if everyone in the country drives gasoline powered vehicles. The obvious benefit to China is environmental sustainability.

Ultimately, GM would be in a position by 2010 to market the vehicles aggressively through preexisting channels. By that time General Motors will be able to compete with the likes of Toyota and Honda in the eco-vehicle market.

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**“Developing partnerships around the world- GM is the majority shareholder in GM Daewoo Auto & Technology Co. of South Korea, and has product, powertrain and purchasing collaborations with Suzuki Motor Corp. and Isuzu Motors Ltd. of Japan. GM also has advanced technology collaborations with DaimlerChrysler AG and BMW AG of Germany and Toyota Motor Corp. of Japan, and vehicle manufacturing ventures with several automakers around the world, including Toyota, Suzuki, Shanghai Automotive Industry Corp. of China, AVTOVAZ of Russia and Renault SA of France.”<sup>7</sup>**

6. <http://www.bloomberg.com/apps/news?pid=10000080&sid=aVeAWTYmNxxs&refer=asia>

7. [http://www.gm.com/company/corp\\_info/profiles/](http://www.gm.com/company/corp_info/profiles/)

**6. Which division/business is most successful for the corporation? Justify.**

There are two ways to look at which division is most successful for the corporation: which division has been most successful for the GM in the past, and moving forward, which division will be a key success in sustaining GM into the future.

GMAC, the finance and mortgage division of GM, has been key in getting GM to the top of the industry and keeping it there in the past. The “automotive and other operations” in 2004 incurred a loss of some \$89 million while the “finance and insurance operations (GMAC)” realized an income of \$2.89 billion. The result was a profitable GM to the tune of \$2.8 billion.

<i>(Dollars in millions)</i>	2004	2003	2002
<b>Consolidated:</b>			
Total net sales and revenues	\$ 193,517	\$ 185,837	\$ 177,867
Income from continuing operations	\$ 2,805	\$ 2,862	\$ 1,975
Net income	\$ 2,805	\$ 3,822	\$ 1,736
Net margin from continuing operations	1.4%	1.5%	1.1%
<b>Automotive and Other Operations:</b>			
Total net sales and revenues	\$ 161,545	\$ 155,831	\$ 150,250
Income (loss) from continuing operations	\$ (89)	\$ 35	\$ 93
Net income (loss)	\$ (89)	\$ 995	\$ (146)
<b>Financing and Insurance Operations:</b>			
Total revenues	\$ 31,972	\$ 30,006	\$ 27,617
Net income	\$ 2,894	\$ 2,827	\$ 1,882

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Many industry analysts predict that GM will sell a controlling stake in GMAC, and according to GM.com the company is entertaining offers to do just that. The main reason the company would do this would be to finance its under-funded pension funds, and at the same time use the capital gained to reposition products (vehicle brands) in the markets where the company's

leadership sees appropriate. If this move materializes, it would be a sign that GM wants to return to their core business and be in a position to truly regain market leadership.

Global Sales by Brand	Jan.-Sept. 2005	Jan.-Sept. 2004	Change	% Change
Buick	421,277	463,351	-42,074	-9.1%
Cadillac	197,078	179,829	17,249	9.6%
Chevrolet	3,351,242	3,123,222	228,020	7.3%
Daewoo	84,230	84,600	-370	-0.4%
GMC	544,235	524,512	19,723	3.8%
Holden	144,340	142,419	1,921	1.3%
HUMMER	39,329	21,359	17,970	84.1%
Oldsmobile	1,858	35,293	-33,435	-94.7%
Opel	998,166	986,454	11,712	1.2%
Pontiac	437,445	469,194	-31,749	-6.8%
Saab	96,633	95,262	1,371	1.4%
Saturn	184,997	186,212	-1,215	-0.7%
Vauxhall	295,608	306,089	-10,481	-3.4%
Wuling	228,045	163,068	64,977	39.8%
Other	42,291	36,917	5,374	14.6%
<b>Total Sales</b>	<b>7,066,774</b>	<b>6,817,781</b>	<b>248,993</b>	<b>3.7%</b>

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If General Motors does return to a true focus on the automotive industry, the success of Chevrolet will be the most influential factor in whether or not the endeavor will be a success. After examining the above chart it's relatively easy to conclude that Chevrolet is by far GM's most successful vehicle division, accounting for nearly half of global total unit sales. In North America Chevrolet markets eight cars, four trucks, six SUV's and two van models. Without this unit GM would clearly not be number one in the automotive industry.



8. [www.gm.com](http://www.gm.com)

9. [www.gmeurope.com/news/2005/news\\_051025.html](http://www.gmeurope.com/news/2005/news_051025.html)

## 7. Which division/business, if any, detracts from the corporation's success?

### Justify.

"In the Chicago area, an internal GM sales report shows that in the first 12 days of October, Chevrolet dealers had reported sales of 576 new vehicles, including other GM brands in the same store, just 12 percent of the company's goal for the month. Many Buick, Pontiac and GMC dealers had reported no October sales at all."<sup>10</sup>

When examining which division really detracts from the firm, it is tough to decide between divisions that are all suffering. According to the chart on the previous page Pontiac and Buick are the real laggards, down about 7% and 9% respectively. Their sales are down because they're boring and unfashionable cars, which can be turned around relatively easy with a redesign and a good marketing campaign. It seems that GMC will be detracting the most because of the brands dependence on trucks and SUV's coupled with the worlds rising energy prices. GMC has three models; Sierra, Canyon (both trucks), and Yukon (an SUV model). North America is where GMC sells the lion share of their vehicles. If gas prices continue to escalate and the current trend in North America of declining SUV and truck sales continue, GMC will have to make more costly changes than Buick or Pontiac in order to survive.



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10. [Ford, GM sales screech to a halt](#) Jamie LaReau, Automotive News, Volume 80; Number 6172, 17October 2005,

### Part 3: Financial Analysis

1. Provide a full financial analysis of the corporation over the past three years, including comparisons to industry averages or leading competitors. All financial information and comparisons must be presented graphically, not numerically.

#### Short Term Solvency:

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The current ratio is a liquidity ratio that indicates a firm's ability to meet its short term debt obligations. General Motors is at a disadvantage, in comparison to competitors, when it comes to that ability. For the past three years GM has hovered around the 1 mark which means that current assets equal current liabilities. Whereas their two main competitors carried about 15% more current assets than they did current liabilities, which simply means that the competition is in a better position to meet said short term obligations.

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11. Thomson One Banker

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The quick ratio is the same as the current ratio, less the inventory from the current assets. This number often tells a better story because with the inventory (not the most liquid current asset) removed, one can see more accurately how liquid a company is in the short term. The current ratio from 2004 showed about a 15% discrepancy between GM and Toyota, but the same year's quick ratio reports them as near equals. This signals that Toyota had more inventory than GM sitting around at year end. The inventory turnover ratio paints a clearer picture of what is happening to Toyota's inventory.

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The inventory turnover ratio is a measure of how many times per year the inventory of the firm cycles on average. Toyota's inventory cycles at a lower rate than that of both Ford and GM. Despite taking longer to cycle its inventory, Toyota in 2004 overtook Ford as the second largest volume automaker in the world.<sup>13</sup>

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12. Thomson One Banker

13. <http://news.bbc.co.uk/2/hi/business/3429027.stm>

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Accounts receivable days is a good measure of how effective a firm is at collecting money that is owed to them. As the graph on the next page indicates this is an area where Toyota is an industry leader, and contributes to their efficiency as an organization. The opposite is true for both GM and Ford when they take nearly twice as long to collect debt, this detracts from their overall level of organizational efficiency.

The trend in account receivable days shows that Toyota has improved each of the last three years, while GM has consistently done poorer year 14 year.



TODAY TOMORROW **TOYOTA**

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14. Thomson One Banker

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**Managerial Effectiveness**

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Return on investment (ROI) is amazing for Toyota in comparison to Ford and GM. ROI tells investors how management is doing with the shareholders

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15. Thomson One Banker

16. Thomson One Banker

money in capital projects. GM and Ford have been outperformed in this vital area. In 2002 and 2004, GM had a ROI below that of a 5 year treasury security (4.75% and 4% respectively).<sup>17</sup> In those two years, GM would have made more money for their investors by purchasing T-bills than investing in company growth.

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Net Profit Margin is a ratio of profitability calculated as gross earnings divided by revenues (or, said another way, gross profits divided by sales). It measures how much out of every dollar of sales a company actually keeps in earnings.<sup>19</sup> Compared to the industry average profit margin of 2.2 GM is doing poorly.<sup>20</sup> However, against Toyota the company is getting killed. In 2004, GM kept nearly a penny and a half per dollar of sales, but Japan's Toyota kept six and a third pennies.

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17. [http://www.firstrepublic.com/finmkts/historical\\_chart.asp](http://www.firstrepublic.com/finmkts/historical_chart.asp)

18

18. Thomson One Banker

19. Investopedia.com

20. <http://moneycentral.msn.com/investor/invsub/results/compare.asp?Page=ProfitMargins&Symbol=GM>

General Motors has delivered to its shareholders consistently over the past three years, with each share earning nearly \$5.00 for the past two years. The trend of increasing EPS has been noted among all three; GM, Ford and Toyota over the course of the last three years.

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21. Thomson One Banker

**2. Is the corporation in a strong financial position?**

No, the company is not in a strong financial position, in fact the company is financially floundering. Toyota is outperforming GM in nearly every important financial measure. And if General Motors doesn't do something about it they'll soon be the number two automaker in the world.

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The result of slumping profitability and return on investment in recent years has been realized on GM's 2005 third quarter earnings release. General Moto 18 automotive lines have experienced a \$6 billion net loss, through three quarters! The devastating loss is further evidence that GM is in extreme distress.

## Section 2: Business Level

### Part 1: Internal Analysis

#### 1. Identify the business' key strengths. Why are these strengths?

- *Design Innovation* is a strength for the Chevrolet division of General Motors. With new and exciting designs like the SSR and the HHR, it's hard to oppose the concept that Chevy is pushing the envelope of product design. Design innovation is a strength because in this hypercompetitive industry it is crucial to not appear boring or dull, a firm must differentiate itself from its competition to stay competitive.
- *Quality.* "When it comes to the J.D. Power Initial Quality Survey, the '05 [Chevy] Impala beat the Accord, Altima, Five Hundred and Chrysler 300...and, Ron Dershem, assistant vehicle chief engineer observes with pride, this marked the fifth consecutive year that the Impala bested the Camry in I.S.Q." <sup>21</sup>  
Without a reasonable expectation of *quality*, customers wouldn't buy the product.



HHR



SSR

The Chevy Silverado has seemingly always been advertised as being “like a rock.” This association has been engrained in Americans heads; one of toughness, longevity, and quality.

- Chevrolet has a *global reach* that is paralleled by few. Having sold 3.3 million units, in over 61 countries through September is evidence of their global prowess. The ability to reach more people in more markets than most of their competitors is a definite strength.
- Chevrolet *knows the North American market*; they've been succeeding in the industry for over 70 years, and has gained extensive knowledge on how to meet North American's needs and wants.
- Over the years Chevy has built a remarkably *loyal customer base*. The loyalty has been particularly strong with American's who want to support the American company and worker. Loyalty is important because as long as you keep quality at a tolerable level, those particular customers will return to buy again with minimal marketing effort.

## 2. Identify the business's key weaknesses. Why are these weaknesses?

- The *fact that Chevrolet is run by GM management* is a weakness for Chevy. "GM is an organically sick enterprise, one that has been in decline for more than three decades, and one that has never seriously come to grips with itself. Its defects have lately become more evident simply because increasing competitive encroachment has exposed them." One of the many reasons for GM's sickness is their "Culture of management non-accountability. GM chronically sets objectives and fails to achieve them. Then nothing happens. The recent list is extensive: 29% U.S. market share, 5% net return on sales, earnings per share of \$10, Chevrolet sales volume of three million vehicles. The corporate culture either moves the goalposts on the timing attached to each objective, sometimes to an indeterminate future; retroactively downplays its importance; or mends the problem with amnesia."<sup>22</sup>

As illustrated in the financial analysis of General Motors earlier in this report, GM remains less profitable than Toyota by a considerable margin. GM's

management has been tardy in taking the steps necessary to create profitability in its business units, including Chevrolet.

Recently, GM management announced plans to lay off 30,000 people and close down 9 plants within the next 3 years.<sup>23</sup> It's difficult to say, but it seems that GM is doing the right thing to try to improve productivity.

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22. [GM Needs an Extreme Makeover](#) John Schnapp. Wall Street Journal (Eastern edition). New York, N.Y.: Oct 24, 2005. p. A.14

23. [General Motors To Slash Jobs](#), Capacity FinancialWire. Forest Hills: Nov 22, 2005. pg. 1

However, many argue that GM won't be able to cost cut their way to

profitability - that the problem is with the processes in which GM manufactures.

- *Out of control cost* of operations is another major weakness of Chevrolet. A

prime example of this would be the legacy cost owed to thousands of former Chevy workers. While measures have been taken to reduce benefits owed to retirees of the company, the cost still remains staggering. GM has a company wide ratio of three retirees for every active employee. Their pension-and-benefits package siphons off money that could otherwise be spent to develop new cars, better interiors, hybrid engines and the like.<sup>24</sup> While this issue is not exclusive to Chevrolet it is indeed hampering the likelihood of success both in the long and short term.

- *Chevrolet doesn't have a line of compact hybrids.* GM management actually said to reporters that "only environmental thumb-suckers would find such vehicles appealing, that lifetime fuel savings would be outweighed by price increments and, above all, that component expenses were greater than Toyota and Honda were recapturing in their hybrid profits." They completely

misread the situation. Now we have vehicles for which customers form long waiting lists and for which they pay full list price or even higher. Yet GM will not have any hybrids until 2007 -- if then.<sup>25</sup>

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24. Showdown Paul Ingrassia. Wall Street Journal (Eastern edition). New York, N.Y.: Oct 13, 2005. p. A.14

25. GM Needs an Extreme Makeover John Schnapp. Wall Street Journal (Eastern edition). New York, N.Y.: Oct 24, 2005. p. A.14

### **3. What are the core competencies of the business and how is the business leveraging them?**

Chevrolet's *knowledge of the American consumer* is a core competency. Chevrolet has been operating in the U.S. for over seventy years and knows who buys their products and why. The company has an unsurpassed selection of vehicles; of which, there is one for every possible type of consumer. Chevy is leveraging this competency through their "American Revolution" ad campaign which attempts to build brand loyalty further. In this campaign Chevy's advertisers use the phrase "start a revolution, turn the key" to the soundtrack of Steppenwolf's "Magic Carpet Ride." Chevy is reinforcing their American ties with rock and roll and mention of a revolution.

The skill is valuable because it helps Chevrolet take advantage of opportunities in the form of new and repeat American Customers. The skill is rare, in that the only firm external to GM that could claim such an association is Ford. The knowledge is inimitable because other firms that want such an association can't go back in time and create it;



the knowledge has grown over time. Lastly, the skill is non-substitutable. In other words, there is little that Chevy can do as well as be American.

Another core competency is *Design Innovation*. Chevy has a reputation in the industry for building unique concepts and designs into their products. Two



examples of how Chevy is leveraging design are the hot 2006 Monte Carlo SS, and the 2007 Tahoe design. Each makes unique advances in

appearance and fuel economy. It is crucial in this industry to be on the cutting edge of change, to always evolve products and never be boring or stagnant.

Chevrolet has been able to achieve such large sales volume because customers find their products different and practical.

Chevy's design innovation is rare, inimitable, valuable to the business, and non-substitutable.

#### 4. What is the generic competitive strategy pursued by the business? Explain.

Chevy is pursuing differentiation as a generic strategy. The brand offers a variety of vehicles catering to individual needs and wants. Chevrolet advertises under the banner of an "American Revolution" to sell the image of an American product in these patriotic times.

In all, Chevrolet offers 17 models of the brand; each can be purchased with or without countless options that further personalize the vehicle to the buyer. The following are a few examples of Chevy products and who they are marketed to.

Chevy offers an entry level gas efficient compact car called the Aveo (*shown at right*) which starts at roughly



\$10,000 and is perfect for the big city dwelling recent college grad. On the opposite side of the spectrum is the American classic Corvette, which is the



epitome of power and unbridled performance. The

Corvette is perfect for the middle-aged man who can



afford its \$46,000 price tag and is going through the obligatory mid-life crisis. The Suburban is the full-size SUV model that seats seven comfortably; the vehicle is perfect for wealthy soccer moms, it cost roughly \$40,000 and loaded can easily exceed \$50,000.

**5. Does the business possess the appropriate set of competencies to pursue the generic competitive strategy identified above? Justify.**

In order for a business to be successful in a differentiation strategy, the firm must know the customer well enough to build and market the right mix of unique products. Chevrolet possesses the competency of knowing the American automobile market and has produced a unique product line that reflects this knowledge. A great example of this is the fact that Chevrolet has people lining up to buy its 505-horsepower -- 505 horsepower! -- 7-liter, V-8 2006 Corvette Z06 sports coupe in times where energy costs are high.<sup>26</sup> Chevrolet knows that it still has Corvette enthusiasts out there that will still buy the product. This speaks volumes for Chevy's brand loyalty on the part of consumers.

Also, to achieve a differentiation strategy, a company must successfully design products that the consumer will perceive as being unique. Chevrolet accomplishes through designs such as the Corvette, 2007 Tahoe, SSR and HHR models.

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26. [Drivers Still Seek Horsepower, Not Fuel Efficiency](#) Warren Brown Washington Post 25 September 2005

## **Part 2: External Analysis**

### **1. Identify the business' key opportunities. Why are these opportunities?**

India and China are two rapidly growing economies with consequently booming markets for automakers.

GM is a minor player in India. In 2004 it sold 26,166 light vehicles there, number one Maruti Udyog sold 479,548 vehicles. Chevrolet plans to "attract budget-minded customers in India's rapidly growing middle class...with brands like the Optra sedan, which starts at about 800,000 rupees, or about \$17,700; the Tavera SUV, which sells for about \$14,400, and the Forester, which costs about \$28,800.<sup>27</sup>

Chinese bought 41,739 Chevrolet-badged cars in the first six months of the year (2005), 2.3 percent of all light-vehicle sales.<sup>28</sup> Chevrolet is attempting a huge push for the Aveo in this growing market; trying to steal market share from dominant players Volkswagen and Honda.

These two markets alone are incredible opportunities for the Chevy brand. Considering that these two countries by themselves represent half to two-thirds of the world's population and that they're buying cars at a growing rate, it

makes good business sense to aggressively target these markets. Part of the equation is shedding the “American Revolution” tagline and marketing Chevy as a global brand of high value and quality. The other part is comprised of vision and execution.

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27. [Chevrolet is key to boosting GM's India sales](#) Mayur Shah. Automotive News. Detroit: Nov 7, 2005. Vol.80, Iss. 6175; pg. 39, 1 pgs

28. [Chevy starts from scratch in China](#) Alysha Webb. Automotive News. Detroit: Aug 1, 2005. Vol.79, Iss. 6159; pg. 32, 1 pgs

## **2. Identify the business' key threats. Why are these threats?**

Chevrolet's *competition* is the most significant threat to the company. Globally, many firms are potentially threatening to Chevy's success, including Honda, Toyota, Ford, Daimler-Chrysler, and Volkswagen to name the most significant. The ability of the aforementioned firms to tap the energy efficient vehicle market coupled with the speed of which they get those vehicles to market, will have a dramatic impact on the future of Chevrolet. Also, the competition's ability to participate in operations and growth at a more profitable clip than Chevy will also be pivotal.

The *interest rate* as determined by the Fed is a threat to Chevrolet. If interest rates increase and drive up the cost of borrowing, the market reaction will likely be lower sales. The opposite is true, in that if interest rates decline sales should increase. This effect is a potential threat because it is not under the control of Chevrolet, yet has the ability to influence sales volume.

*Energy prices* will be a highly significant threat to the company. For example, if North American gas prices decline in the near future, sales of the “gas-guzzling” SUV and truck models should recover. However, if gas prices

remain high or increase further, SUV and truck sales will continue to suffer and sales of the compacts and future hybrid models will increase.

**3. Is the business as a whole dealing effectively with environmental opportunities and threats? Explain.**

In a word, no. An example of the company's inability to do so is Chevrolet's answer to the hybrid dilemma; the Chevy Silverado hybrid truck that gets an amazing 18 mpg in the city and 21 mpg on the highway. Chevrolet plans to build a rather small volume of 3000 units for the 2006 year.<sup>29</sup> The Silverado Hybrid, while a step in the right direction is a misallocation of hybrid resources. Consumers that are concerned with rising fuel costs are unlikely to pay the hybrid premium to save such a trivial amount of gas and money. The resources would have been better allocated to compete with threats like Toyota's Prius, and Honda's Civic Hybrid *now*. Chevy's line of practical hybrids is scheduled to debut in 2008. Had Chevrolet been dealing effectively with this threat of *energy prices*, they would have been in a position to compete.

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29. GM makes 2 hybrid pickups available all over the U.S.  
Richard Truett. Automotive News. Detroit: Nov 14, 2005. Vol.80, Iss. 6176: pg. 20, 1 pgs

#### **4. Apply the five forces model to the industry in which the business is based.**

**What does this analysis tell you about the nature of competition in the industry?**

##### ***Rivalry among competitors***

The automobile industry is in a very mature stage in North America, price cutting is being seen in such actions as the "employee discounts for everyone," and the current GM "red tag event." Rivalry is fierce in North America, but less fierce in the global arena. In the global arena (specifically in developing countries) the industry is still growing, many firms are grappling for early market share and consequently rivalry is less prevalent.

##### ***Threat of new entrants***

There is generally little to no threat of new entrants. The automotive industry is one that is capital intensive with low profit margins, which makes it very unlikely for any new entrant to succeed.

##### ***Threat of substitutes***

Substitutes for vehicles include walking, riding a bike, flying, using public transportation, or riding an animal (i.e., horse or elephant). The threat of substitutes for the automobile industry should be given consideration. Many

people that reside in ultra-urban areas don't own cars, nor do they need them because of the advances in public transportation. Given the widely publicized global rural to urban human migration, people in those urban areas will also be less inclined to buy a car when they can walk, ride a bike, or take the bus to their closer destination.

### ***Bargaining power of buyers***

In the automobile industry the power of the customer over the firm is a function of how dependent the firm is on the customer. The American firms currently are more dependent on their customers than their Japanese counterparts are in North America. GM and Ford need the customer to buy their vehicles so they don't lose treasured market share on their home turf. Also, consumers have shown desire for the firms within the industry to act socially responsible in regards to developing environmentally friendly technology.

### ***Bargaining power of suppliers***

There are many suppliers in the auto industry that offer a collective arsenal of component parts. The suppliers are very dependent on the automakers for their profits. When sales drop off and production is cut, suppliers must cut their production also to remain profitable.

### **Conclusion**

This analysis of the industry reveals that it is an aging industry in developed regions, and a growing industry in developing nations. The industry is not one that sees many new entrants because of the extensive capital it requires to

establish operations. Customers hold the power and suppliers do not in an industry where rural to urban migration may produce a higher volume of substitutes for automobiles.

**5. In what stage of its life cycle is the industry in which the business is based?**

**Explain.**

The automobile industry is in the maturity stage of the product life cycle. Companies are trying to find new markets to create new buyers; for example, the rush to market to China and India, and the race for mastery of hybrid technology. Consumers in North America are seeing aggressive price wars in an effort not to lose market share. It's agreed that rising energy prices have contributed to decreased sales in 2005, but the maturity of the lifecycle is impacting that figure as well.

Maturity in the product lifecycle is characterized by a slowing of total industry sales or product class revenue. Also, marginal competitors begin to leave the market. Sales increase at a decreasing rate in the maturity stage as fewer new buyers enter the market. Profit declines because there is fierce price competition among sellers and the cost of gaining new buyers at this stage increases.

Marketing attention in the maturity stage is often directed toward holding market share through further product differentiation and finding new buyers.<sup>30</sup>

**6. What are the implications for the business of being in this stage of the life cycle in terms of the intensity of competition both now and in the future?**

The industry will be characterized by increased competition and price wars. The industry will also experience

sales growth at declining rates. Eventually, less fit firms will die off, the industry will consolidate, and hyper-competition will cool off. If significant changes are not made at GM, it will become one of those “less fit” firms.

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30. Marketing 7<sup>th</sup> Ed. Kerin, Berkowitz, Hartley, Rudelius. McGraw-Hill 2003. p.294

### **Part 3: Overall Business-Level Analysis**

#### **1. Does the business have a sustainable competitive advantage? Justify.**

The business has the sales volume to compete with other industry leaders on cost and retail price. Chevy does a particularly good job at innovating design in their product mix, and keeping the vehicles new and exciting. Chevy can appeal to a spectrum of consumers who all have different wants and needs when it comes to purchasing a new vehicle. Chevrolet has made improvements in quality (eliminating that cheap feel) that will prove vital in the long run, especially when competing globally with the high quality Japanese products.

Chevrolet is taking steps to break into an Asian market that is growing rapidly. At the same time Chevrolet hasn't forgotten their American heritage, as they stay aggressive on the home front. The business is taking the steps to acquire essential hybrid technology, albeit late, but better late than never.

Yes, Chevrolet is in a position to have a sustainable competitive advantage moving into the future.

### **Section 3: Recommendations**

- **Overhaul management.**

The GM Board of Governors must oust the current top management team and start over. They need management that can foster change, run a profitable corporation, hold management accountable and do a better job at dealing with the external environment. This is the first step in the recovery of GM; if the top management team isn't replaced soon, GM will lose.

- **Write a new mission statement.**

The new mission statement should facilitate a change of attitude and the way GM does business. GM needs to address their role in environmental distress, do a better job of prioritizing stakeholders, and scream quality in the statement. GM needs to call it a mission statement and live and/or die by it. Also, the company should position the statement on their website so that it is prominent and/or easily found, like in a big font on the homepage. That way, everyone will know what GM exists to do - it wouldn't be hidden.

- **Sustain strategic alliances.**

GM needs to improve in this area to learn more about changing technology and how to harness the technology. A good place to start is in their alliance with SAIC Motor in developing hybrid technology. If GM can maintain this alliance, in the end, it will be in a position to capture a decent share of the hybrid market in China and eventually the world.

- **Get pension costs under control.**

GM and retired GM employees must find common ground on the pension plans. Former GM employees need to see that the company they worked so hard to build over the years needs their help to survive. Also, GM needs to realize that they can't just ignore this problem. These are people that helped make GM the industry leader, and just because the company is struggling doesn't mean they can back out of their obligations.

Concessions need to be made on both sides.

- **Sell GMAC.**

Return to the core business of manufacturing automobiles. Sell a controlling stake in the finance arm and use the money to make amends with former workers first. Any money left over should be used to support the core business in moves that could include: the creation of a GMC car, consolidating divisions, improvements in quality, or advances in hybrid technology.

- **Focus on quality.**

Moving forward, the new GM should focus more on quality and less on cheap. GM needs to design quality, manufacture quality, advertise quality, and stand by the quality. Quality builds value, and value will rebuild GM. General Motors needs to quit advertising discount, after discount, after red tag event discount. Doing that makes consumers perceive GM products as being cheap, cheap is associated with poor value and poor quality. Instead, after building quality into the product, advertise quality and value. If GM can do this well they'll be in a better position to compete against the Japanese in terms of financial performance and quality.

- **Take hybrid technology seriously, utilize it.**

It's not only environmental thumb-suckers that find such vehicles appealing, it's the penny pinchers too. Yes, most of the need for the hybrid technology (and alternative fuel technology) is to help the state of the environment and to stretch a finite resource. But, the other side is one with financial implications.

The potential for a gallon of fuel to get you further, cheaper, is something everyone wants and can relate to. GM needs to make valiant efforts to gain the resources to manufacture hybrid vehicles as quickly as possible.

When they do start producing the vehicles, they need to be of the utmost quality so that the GM image is improved that much more.