

# DaimlerChrysler and the World Automobile Industry



DAIMLERCHRYSLER

# Summary



- 1. WHAT CHANGES IN THE STRUCTURE OF THE WORLD AUTO INDUSTRY BETWEEN 1970 AND 2001 CAUSED INDUSTRY PROFITABILITY TO DECLINE?**
- 2. HOW IS THE INDUSTRY LIKELY TO EVOLVE OVER THE NEXT 10 YEARS? WILL IT BE MORE OR LESS PROFITABLE THAN THE PAST 5 YEARS?**
- 3. WHICH FIRMS WILL BE MOST SUCCESSFUL OVER THE NEXT 10 YEARS?**

# 1. What changes in the structure of the world auto industry between 1970 and 2001 caused industry profitability to decline?



## ✓ GENERAL:

- May 1998 : Merger between Daimler Benz and Chrysler Corporation
  - The biggest industrial merger in history
  - The world's 3rd largest automotive company
- « One company, one vision, one chairman, two cultures »
- Within a year, the merger had run into trouble

# 1. What changes in the structure ... ?

(Cont'd)



- Most serious decrease of Chrysler's performance
- March 2000 acquisition of a third of Mitsubishi
- June 2000 acquisition of 10% of Hyundai
- 2001 launch of a turnaround plan for Chrysler and Mitsubishi



# 1. What changes in the structure ... ?

(Cont'd)



- Fordism revolution
- Toyota's « lean production »
  - 80's : period of high investment expenditure
  - Reduce extent of scale economy
  - Higher cost of new product development
  - Increase of big companies VS decrease of small companies



# 1. What changes in the structure ... ?

(Cont'd)



- Increase of competition
- Market saturation
- Decrease of demand
- Japanese advantage of shorter new product development
- Desire for lower cost and increasing flexibility



## 2. How is the industry likely to evolve over the next 10 years?



- ✓ The car industry is following some general tendencies
- ✓ Importance of technology : Internal and External points of view

*Ex : Austin Mini-Cooper*

- ✓ Gathering strategies



## 2. How is the industry likely to evolve over the next 10 years?

(Cont'd)



- ✓ Opening of new markets : A challenge to reach new targets

*Ex : Renault Logan*

- ✓ Reinforcement of some industry actors

- ✓ Importance of lobbies about sustainable development : A R&D challenge

*Ex : Hybrid and Electric cars*

Will it be more or less profitable than  
the past 5 years ?



✓ **STEP ANALYSIS OF THE PAST 5 YEARS**

✓ **FIVE FORCES OF THE COMPETITION MODEL**

## 2. Will it be more or less profitable than the past 5 years ?

### *STEP Analysis of the past 5 years*



- **Socio – Demographics**

- ✓ The focus now, is starting to turn towards :

- Generation X

- Generation Y

- ✓ Today's generations are still buying the trucks, minivan and especially the SUV's, even with the ridiculous gas prices

- ✓ People change their car very often.

- **Socio/Culture**

- ✓ Society judges people on the type of car you drive.

## 2. Will it be more or less profitable than the past 5 years ?

### *STEP Analysis of the past 5 years*



- **Technology**

- ✓ The internet factor.

- ✓ 60% of the buyers referred to the internet before making their purchases and out of that 60%, 88% went to the auto websites before going and taking a test drive.

*Ex : Toyota and Honda were both selling the hybrid vehicles at retail value in 2001.*

## 2. Will it be more or less profitable than the past 5 years ?

### *STEP Analysis of the past 5 years*



- **Economy**

- ✓ The automobile industry is the major user of computer chips, textiles, aluminum, copper, steel, iron, lead, plastics, vinyl, and rubber.
- ✓ For every autoworker there are seven other jobs created in other industries.
- ✓ In 2001, the total sales of automobiles were 3.7% of the US's GDP

- **Politics**

- ✓ **1966** National Traffic and Motor Vehicle Safety Act passed by Congress.
- ✓ **1965** The Vehicle Air Pollution and Control Act.
- ✓ **In the 1970's**, Congress passed the Clean Air Act.
- ✓ **1975** The Energy Policy and Conservation Act.
- ✓ **1992**, the Intermodal Surface Transportation Act.

# Five forces of the competition model



- ***Threat of New Entrants***

- ✓ The threat of new entrants is **very low** in the automobile industry.

- ***Bargaining Power of Suppliers***

- ✓ The bargaining power of suppliers is **very low**.

- ***Bargaining Power of Buyers***

- ✓ The bargaining power of the buyers is **moderately high**.

- ***Threat of Substitute Products***

- ✓ There are **not many substitute** products for automobiles.

- ***Intensity of Rivalry among Competitors***

- ✓ Rivalry among the competitors is **very strong** in this industry.

# SWOT Analysis



## ✓ **Strengths**

- Many well-known and recognizable brands: Dodge, Chrysler, Mercedes Benz, and Jeep.
- Large worldwide presence
- Leader in hydrogen fuel cell technology.

# SWOT Analysis

(Cont'd)



## ✓ **Weaknesses**

- Not strongly represented in the Asian markets.
- Growing use of hybrid engines
- More an acquisition than a merger

# SWOT Analysis

(Cont'd)



## ✓ Opportunities

- The growing trend of consumerism in China.
- Decision to focus on hydrogen power research and development.



# SWOT Analysis

(Cont'd)



## ✓ **Threats**

- Shaky alliance between DaimlerChrysler and Mitsubishi
- DaimlerChrysler's decision to put all its eggs into the hydrogen fuel basket



# Diagnostic

## The market

- Analysts say that five years from now Gen X and Gen Y combined will account for at least 40% of vehicle sales.
- Anyone who drives a nice vehicle is thought to be wealthy .
- Sales cannot keep growing up.
- Legislation do not limit a lot manufacturers.
- No substitutes can power on this market.
- No place for new entry.

## The company

- Daimler Chrysler covers strong brands
- Despite the spilt of Daimler Chrysler, Daimler AG preserves is presence on the market but also there is no problem anymore between his top manager.
- DaimlerChrysler's first hydrogen-powered car using fuel cell technology will be on sale from 2012.

**So, YES, the Automobile Industry is going to be profitable again and again**

# 3. Which firms will be most successful over the next 10 years?



## CHALLENGES TO MANAGE:

Reducing production costs :

- ✓ *Establishing collaboration to develop new cars*
- ✓ *Increasing competition between manufacturers*
- ✓ *Delocalizing production where labor cost is lower or increasing automation*
- ✓ *Creating joint ventures for component production*

## 2. Which firms will be most successful over the best 10 years ?

(Cont'd)



### CHALLENGES TO MANAGE:

- ✓ Diversifying types of cars

*Producing cars for different segments (familial, luxury...)*

- ✓ Dealing with global issues

*Developing cars which run with new energies*

- ✓ Reinforcing Brand management

Thank you for your attention

