

Module 1 Strategy Entrepreneurs

- > Industry Analysis: US auto Industry
- > Trends and Challenges
- > Industry Classification
- > Class Activity: Tools for Industry Research
- > Key Takeaways

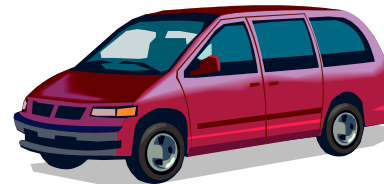
Class Activity: 5 Forces Model for the US Auto Industry

- > Divide into 6 groups
- > Argue for your claim giving reasons, evidence, qualifiers.

Analyze the automobile industry based on the 5 Forces Model.

1. Explain which forces are stronger and which are weak. Be prepared to justify your answer.
2. Based on the value framework suggest one generic strategy for this industry as an entrant. Make plausible claims about WP and OC and give reasons.

What is the boundary for this Industry?



- > Companies in this industry manufacture cars and automobile chassis. They are referred to as automakers and typically produce automobiles (cars, including electric cars) in assembly plants. The manufacturing of light trucks such as vans, pick ups and SUVs, heavy trucks and motorcycles are not included in this industry.
- > Why? Recall NAICS 33611a (Car & Automobile Mfg)

What is NAICS?

Industry Executive Summary

Car & Automobile Manufacturing in the US

Oct 26, 2009, NAICS 33611a



WHERE KNOWLEDGE IS POWER

Definition

Companies in this industry manufacture cars and automobile chassis. They are referred to as automakers and typically produce automobiles (cars, including electric cars) in assembly plants. The manufacturing of light trucks such as vans, pick ups and SUVs, heavy trucks and motorcycles are not included in this industry.

STATISTICS

2010 KEY FACTS

Revenue	\$75,792 Million
Number of Enterprises	142
Forecast Revenue Growth to 2015	5.5%
Forecast GDP Growth to 2015	2.8%
Recent Employment Growth	-3.7%
Average Wages per Employee	\$85,303
Average Profit Margin	-1.0%
Average Revenue of Enterprise	\$533,748,592
Imports Share of Domestic Demand	43.0%
Exports Share of Revenue	18.5%

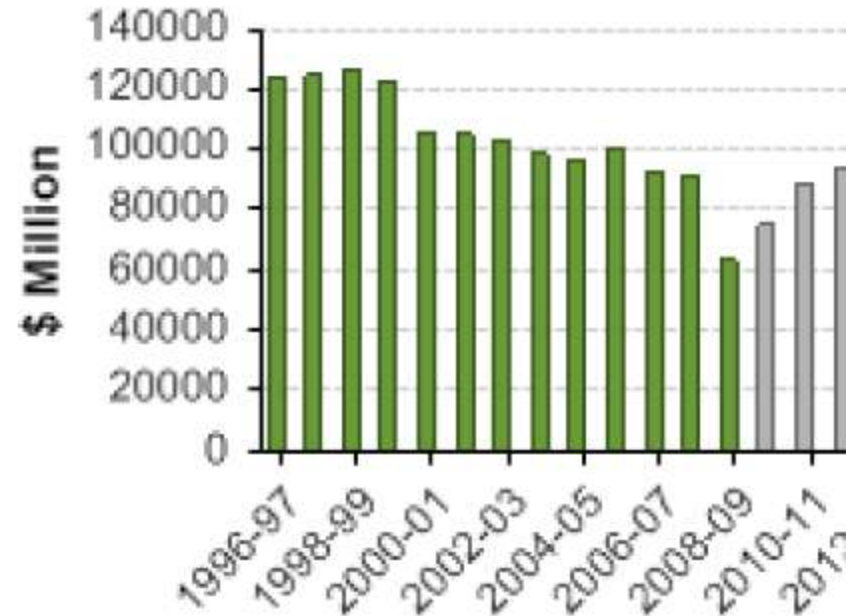
Competition in this industry is medium
Volatility high (revenue fluctuations between 10 and 20 points.)
The life cycle stage is decline

The top 5 players account for 70% of industry revenue:

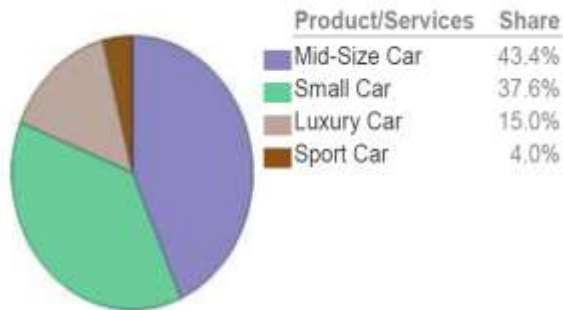
- Toyota Motor Corporation	17.8%
- Ford Motor Company	17.5%
- General Motors Corporation	14.5%
- Honda Motor Co., Ltd.	11.8%
- Chrysler Group LLC	7.5%

- > The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

Industry Analysis: Not whether you are profitable today...

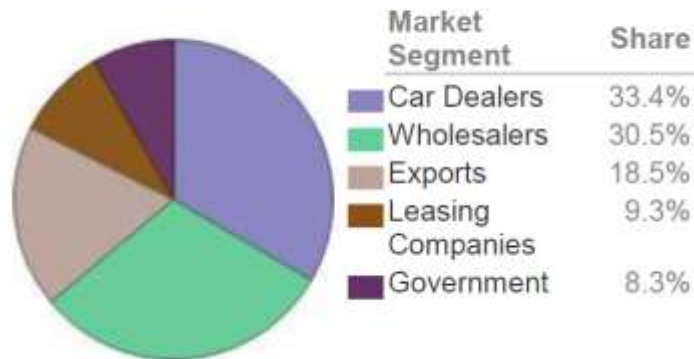


NAICS 33611a [Car & Automobile Mfg]



MAJOR MARKET SEGMENTS

COST STRUCTURE

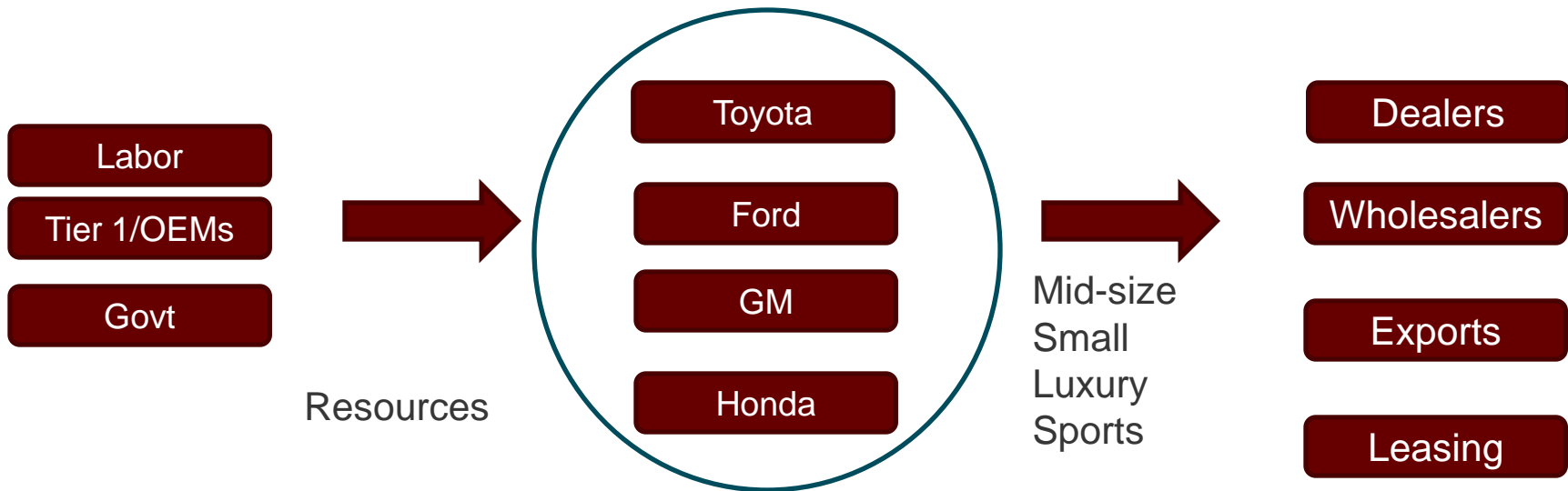


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- > Use products, top players, cost structure and market segment information as an indicator for identifying elements of the value chain.

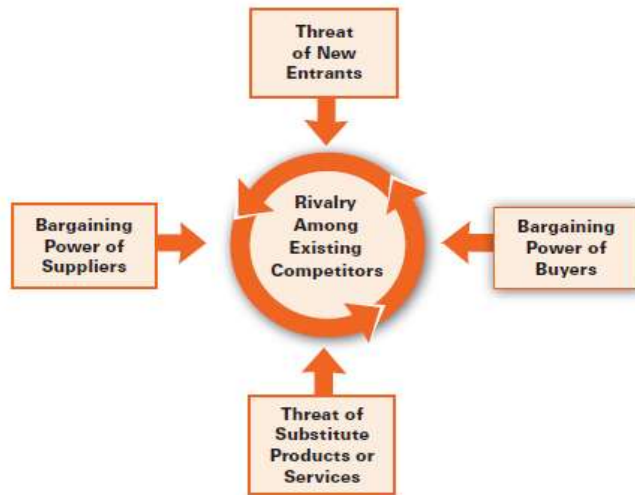
Value Chain for our Industry



- > Some elements of the value chain may need more data and information.
- > **Understand the dynamics of these interactions**

5 Forces Model: Not a Science but Useful....

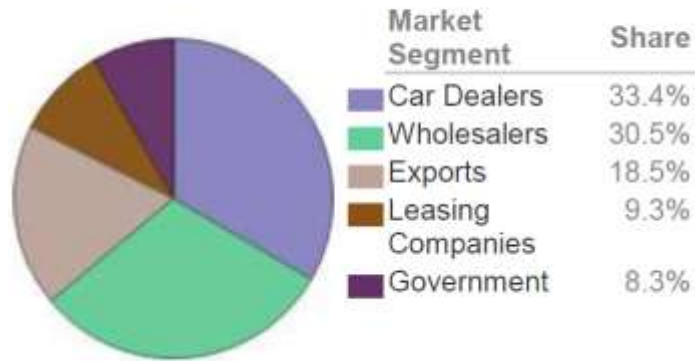
The Five Forces That Shape Industry Competition



- > Whose perspective?
- > What level of analysis?
- > Substitutes for the Industry
- > Not Static
- > Bargaining Power?

What increases Buyer bargaining power

MAJOR MARKET SEGMENTS



- > They are large and purchase a sizable percentage
- > They can integrate backward (Buy you out)
- > Industry's product is standardized
- > Low Switch costs
- > They can purchase from several sellers

Overall Buyer Bargaining Power is moderate to high

What increases supplier bargaining power

COST STRUCTURE



Labor

Tier 1

OEMs

Government

- > Item makes up large portion of product costs, and/or significantly affects product
- > Costly to switch
- > Powerful and reputed
- > Highly efficient/specialized
- > No substitutes
- > Buying firms are not important customers

Overall Supplier Bargaining Power is very high

What increases forces of rivalry?

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- > Frequent launch of products
- > Lots of firms that are relatively equal in size and capability
- > Commoditization
- > Aggressive marketing and product strategy
- > Low switch costs for buyers
- > Scarce supply side resources

Overall Rivalry is moderate to high

Entry Barriers: Threat of Entry

- > Supply side scale economies
- > Demand side scale economies
- > Existence of strong learning/experience curve effects
- > Strong brand preferences and customer loyalty
- > Cost disadvantages independent of size
- > Difficulties in gaining access to distribution channels
- > Regulatory policies, tariffs, trade restrictions
- > Expected retaliation

Overall Entry Barriers are high

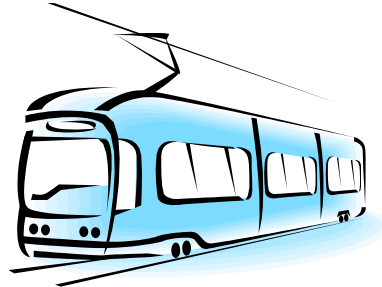
What are some substitutes?

Understand alternate ways of meeting a need.

Can you think of examples in why you would go for these?

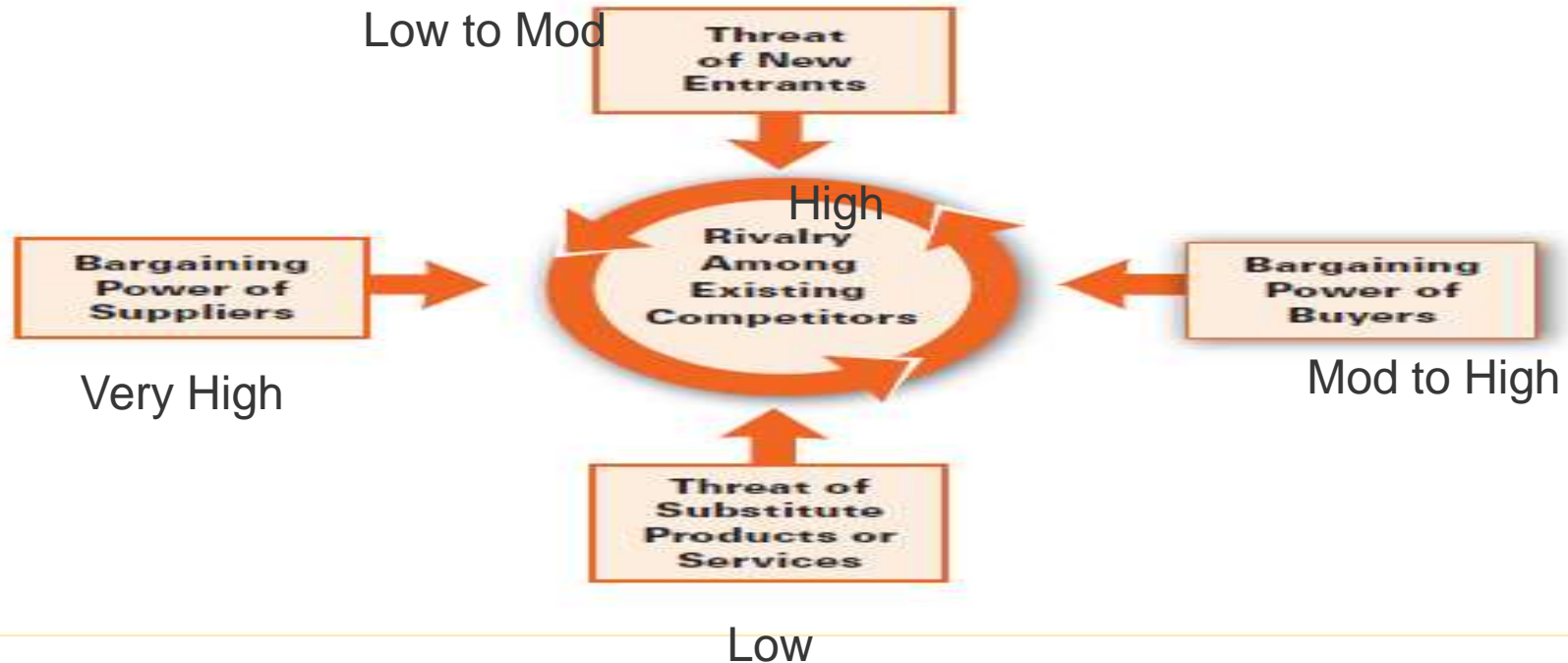
Does it matter how we define our industry?

Overall currently low to moderate threat of substitutes



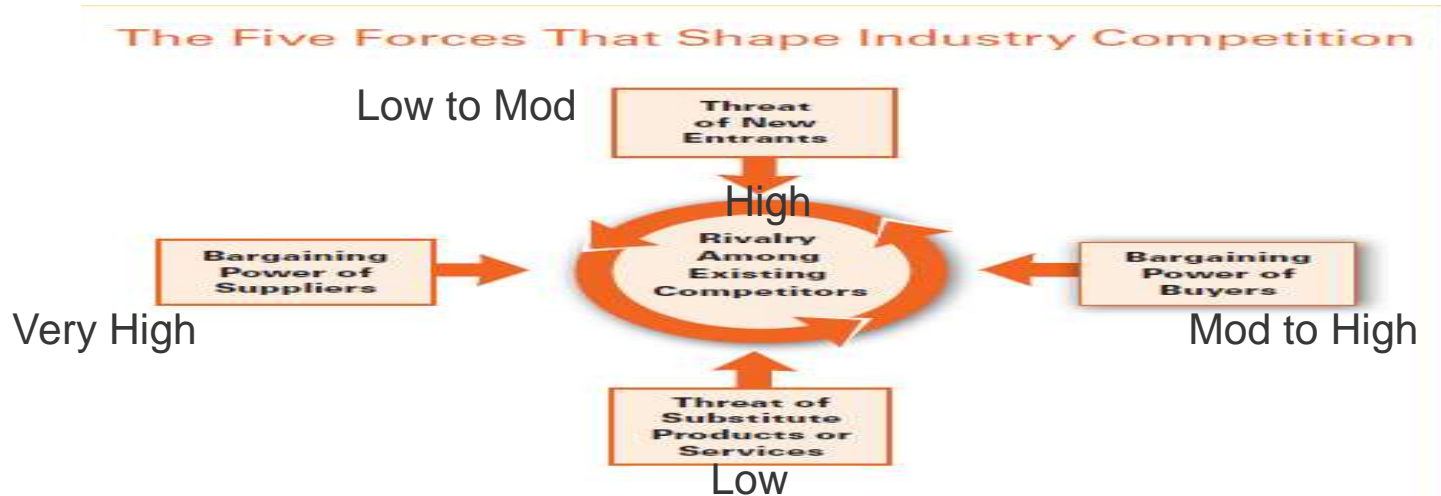
Looking at the 5 Forces

The Five Forces That Shape Industry Competition



Overall this Industry is low to moderately attractive

5 Forces and Emerging Trends



- > Rising Gasoline Prices
- > Bailout and its consequences
- > Selling to the Poor
- > Fuel Cells, Li-Ion, Solar and Electric Technologies
- > Changing Lifestyles

Key Takeaways

- > How to define an Industry and apply the Five Forces
- > Can you identify a profitable niche?
- > Industry does not exist....What do I do?