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Current automotive industry: how one leader practices CI

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1 Introduction

Following on the series on competitive intelligence (CI) in real life, this article focuses on the application of CI in the automotive industry and, in particular, the practices of a leading automotive manufacturer. The article firstly provides an overview of the global automotive sector and the impacting competitive forces.

2 Background

Globally, also in South Africa, the automotive industry is facing new and pressing challenges. Automotive manufacturing is closely linked to many other sectors, including electronics, mechanical and electrical engineering, information technology, steel, chemicals, plastics, metals and rubber. The current economic crisis is being marked by a sudden downturn in manufacturing and sales. The downturn has hit the automotive industry particularly hard: The sales figures of new vehicles in South Africa were down by nearly 10 000 in September 2009 in comparison to September 2008 figures (see Table 1). This is a global phenomenon that also impacts on sectors with close links to the automotive industry, such as steel, where consumption is expected to decline.

Table 1 Total market sales in South Africa

	Year	**Sales**
Total sales September	2009	31726
Total sales September	2008	40858
Total sales August	2009	29675
Total sales August	2008	40186
Total sales January-September	2009	265276
Total sales January-September	2008	385818

Source: NAAMSA, October 2009

According to official figures, South Africa's automotive industry accounts for about 10% of South Africa's manufacturing exports. Although South Africa is a small global player, the local automotive sector is regarded as a giant, contributing about 7,5% to the country's gross domestic product (GDP) and employing around 36 000 people. The government has identified the automotive industry as a key growth sector, with the aim of increasing vehicle production to 1,2-million units by 2020, while significantly increasing local content at the same time. South Africa currently exports vehicles to over 70 countries. African export destinations include Algeria, Zimbabwe and Nigeria.

All of the major vehicle makers are represented in South Africa. Many of the major multinational companies use South Africa to source components and assemble vehicles for both the local and overseas markets. The major brands in South Africa include Toyota, Ford, GM, Mercedes-Benz and Volkswagen. Other brands that entered and re entered include Alfa Romeo, Renault and Chevrolet, Mahindra, SsangYong, Dacia, Kia, Hyundai, Daewoo, Saab and Subaru, Bentley, Cadillac, Citroën, Dodge, Maybach, Mini, Proton, TVR, GWM, Lexus and Tata (South Africa Info 2008).

A growth catalyst has been the government's Motor Industry Development Programme (MIDP).

Introduced in 1995, the programme is legislated until 2009 and will be gradually phased out until 2012. The MIDP has boosted exports by enabling local vehicle manufacturers to include total export values as part of their local content total, then allowing them to import the same value of goods duty-free. There are more than 200 automotive component manufacturers in South Africa. Other key exports include engines, silencers and exhausts, radiators, wheels and tyres, stitched leather car seat covers, car radios and sound systems, and axles. There are about 1400 variants of cars, recreational vehicles and light commercial vehicles in South Africa.

2.1 Issues impacting on competitiveness

Jain and Gard (2008), Chussil (2009) and Min (2005) highlight a number of issues that are currently impacting on the sector's competitiveness:

- Globalisation and market convergence: Owing to the effects of liberalisation, national markets are increasingly globalised. This gives companies a chance to expand to new markets, but also increases the threat of new entrants or increased competition in traditional markets.
- Changing of the guards: In June 2009, there was an automotive war-game exercise between Ford, General Motors (GM), Hyundai, Toyota and Volkswagen. A number of lessons for these players emanated from the games, including the following (Chussil 2009): automotive manufacturers no longer prescribe to the market; it is important to align marketing and products, for example promises must be backed up with marketing; there must be constant innovation in terms of new business and approaches; and, interestingly, automakers should define what winning is.
- Individualisation: Consumers are being spoilt for choice and are no longer satisfied to accept standardised products. Products need to be tailored and tailorable to satisfy individual requirements. Jain and Gard (2009) say that because of the increased global competition with a stronger focus on price and not on brand loyalty, consumers generally do not reward companies for their more individualised products. As a result of these factors, automobile manufacturers have new demanding requirements within their field of activity.
- Accelerated modification and diversification of the product portfolio is necessary and manufacturers therefore have to shorten product lifecycles in order to react with innovative products to the expectations of changing consumer demands. Product design is often modified after just two or three years on the market. This brings about high development costs and the need to anticipate future customer preferences (Fishwick 2005).
- Increasing safety requirements: This is both a customer requirement and a regulatory necessity.
- The environment and CO_2 emissions: In this regard, Toyota can be regarded as a leader in hybrid car manufacturing. Its Toyota Prius is a best-selling hybrid car globally. The Prius has contributed much to Toyota brand image and popular success in a context where the environment factor has become critical for a majority of car buyers. In 2009, Toyota launched the 3rd generation Prius. The Toyota Prius had no real contender until Honda launched a new hybrid model, the Honda Insight, that is cheaper than the Prius (Kaizen Analytics 2009).
- Increased pressure for innovation and flexibility in development and manufacturing: Development departments are challenged by the complexity of digital technology and the shortening of product lifecycles. Another aspect is the increasing number of parallel development projects since companies develop more and more niche models for special target groups. This certainly requires the use of new development techniques such as virtual reality (Fishwick 2005).

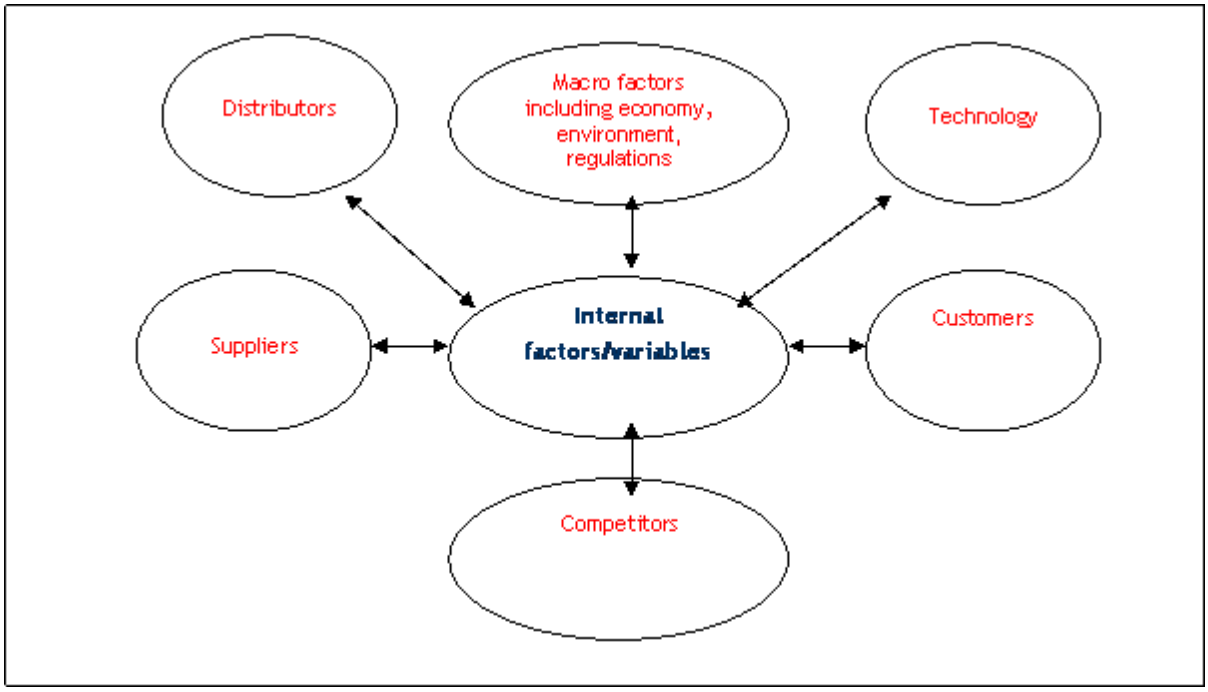
3 CI practice of a leading automaker

Different companies approach CI in different ways. Against the background of the described competitive and rapidly evolving nature of the automotive sector, the CI practices of a leading manufacturer will be described. The name of the manufacturer whose CI model will be described will remain disguised but it is a leading global player. The car manufacturer realised long ago that the competitive environment was becoming increasingly complex, unpredictable, rapidly changing and impossible to predict accurately. Amid this reality, the best thing to do is to interpret any given situation (be it present trend or future forecast), try to understand and make sense of it and base ideas on future developments on current situations.

3.1 CI model

The CI follows a hub and spoke model where the different locations work in close cooperation with the mother company. The spokes have a strong marketing focus regarding their specific market, namely South Africa and the particular and unique market forces.

The company approaches its CI or its competitive position as being part of an open system comprising input, process, output and feedback within an environment. Its approach to CI is a way of thinking, and not a standalone function that only a few people engage in. It sees the organisation as an integrated complex of interdependent parts that are capable of accurate interactions among themselves and within their respective environments. Adding to the complexity is the fact that all these internal variables should be integrated with external variables and these bits and pieces should somehow be integrated and viewed as pieces of a large picture that should then be analysed and interpreted and possible outcomes derived on which counter measures and action is based.



4 CI focus areas

It is important for companies to accurately identify the important variables within their competitive environment. Being a motor vehicle manufacturer, it goes without saying that priority would be given to marketing intelligence, technological intelligence, competitors, suppliers and customers. Being part of global company, the spokes do not indulge in tracking technological advances or Research and Development but does, as a matter of priority, track macro events (e.g. the impact of the 11 September terror attack on its competitors, the export and import market, on European car manufacturers, on local buying power and the current economic crisis and legislation such as labour regulations; customer behaviour and preferences).

Technology has an unmistakable influence on a car manufacturer and exporter. This aspect is handled by the hub that conducts technological research into relevant technical tracking, innovation and predicting. For example, it looks at vehicles powered by alternative fuels (fossil fuels, hydro) but it takes the spoke to check the local marketâ€™s acceptance level for such vehicles and remain informed on similar developments by competitor companies.

Customer behaviour and changing preferences, and also the choice the present buyers can exercise, require massive research into local buyer preferences and lifestyle. Spokes are required to 'live, eat and drink the local market' and to track changes far into the future because a car manufacturer works with production cycles of up to 10 years. Spokes have full research and intelligence departments that are dedicated to look into new products to suit market needs far into the future.

The competitor focus is equally important. The global automotive industry is highly competitive and competitor focus is undeniably important. This company says it not only has traditional competitors like

other large manufactures but it also regards other modes of transport as competitive forces, for example rail transport.

Being globally competitive means working on the basis of a totally integrated value chain in which suppliers are highly important. Especially exporters need reliable, quality-focused suppliers. It goes without saying that being a local manufacturer means requiring a strong local manufacturing contend if you'd like to export.

Distributors are also a competitive factor. This company has a countrywide dealer network and each dealer's financial statements are analysed and interpreted on a regular basis. There is a close relationship between the dealers and a particular spoke. They also monitor the Internet distribution network. Today's players have to process masses of information and face a constantly changing environment in which customer *wants* also change continuously. Basic customer needs largely remain unchanged; *wants*, however, change constantly, unpredictably and variedly. The dealer network is the front section that provides invaluable information on market and customer developments.

5 Keys to successful intelligence

The company recognises that there are many factors that, if present, would guarantee CI success. It, however, focuses on the following factors:

- *Integrity* of information: Accurately, updated and verified information and a realisation that information is only as intelligent as its source. In other words, it is imperative to verify and test information.
- Ethics and governance: As a public, global player, the company regards adherence to ethics as good business practice and vitally important. Spying, bugging and trashcan digging are not activities it would encourage its employees to indulge in and would not risk the company's image by condoning such activities. Furthermore, it is not necessary to steep to such lows. A proper CI capability makes illegal, unethical practices unnecessary.
- Analysis and interpretation: Information must be analysed and interpreted before it can be used in decision making. Albeit highly important, this activity is difficult, involved and complicated. Having the right information does not necessarily afford a company the competitive edge. Information is accessible to all and only once it is interpreted through a process of thorough research, can it be translated into competitive advantage. That should also be the focus of CI. The better the analysis and interpretation, the less the danger of relying on gut feel and the more accurate the anticipated future. Being a leading competitor also affords one the luxury of creating one's own future.
- Sharp, brief reports: The company functions on the principle that the message is most important and enjoys priority above the means used to get to the message, in other words, the analysis and interpretation processes employed. Reports are short, focused and to the point and should always answer the question 'So what?' Key reports are very brief.
- Information sharing: The principle of information sharing lies at the core of its intelligence success. Its war room is lined with graphs and sheets of information and focused on providing a constantly updated visual status of the competitive environment at any given time. All the information important for decision making is displayed in analysed and interpreted form. The company also has virtual information sharing rooms to enable different parts of the world to interact and integrate intelligence and knowledge. All divisions are parts of one whole.
- Link to strategy: Outcomes of the CI process should be integrated into strategy and business planning. A company should not fall into the trap of analysis without end. Analysis, although most important, remains a means to an end – the end being adjusting plans and strategy. The process followed encompasses gathering of information, analysis and impact analysis, devising counter measures and implementation through modelling and simulation and making new projections for the next five years. This planning is an integrated, participative process and focuses on how the new situation differs from the previous situation and what counter measures should be devised to adapt. All analysis should lead to calculating the real impact on the business.
- Counter measures: Analysis, simulation, interpretation, simulation should lead to an end goal – a 'what to do next' – based on the new situation. The process should be simple to conduct, understand and utilise. Planners should be able to look at all inputs from various sectors that were

required to make contributions (stressing the importance of following an integrated, cross functional and team-based approach) that might involve products, finance, distribution, internal and external sources, macro factors such as trade agreements, competitor analysis and their focus and business strategies. Although each input is important, particular focus is afforded to competitors and questions such as how they see the future of the motor vehicle and the transport industry, customer preferences (wants) of a brand and how this would impact on sales. It is important, in the final instance, to have a strategic intelligence process based on strategic business issues, integrated into a business plan through a total input approach and a regular update of the business plan keeping pace with constantly changing variables.

6 Conclusion

In conclusion, successful CI as practiced in general has a few prerequisites. These are affirmed by the automaker and are as follows:

- CI is an inclusive process that permeates the whole organisation. It is however primarily a top management function. Top management should drive and facilitate the process. In this company, the company chairperson manages the process and a team of senior managers conduct it. Business planning and strategy cannot be conducted by a single person but it does require a single person to manage and facilitate the planning.
- Some research is outsourced, for example macro economic trends and analysis, and important elements/variables are measured weekly. Changes that require action are dealt with immediately.
- Information is shared company wide and this sharing is cross-functional. Sharing rests on the 'need to know' principle but CI should not be a secretive process.
- CI should be externally and future focused.
- A proper analysis and interpretation capability is of paramount importance. Applying modelling and simulation is most important - failing to do this compels companies to start guessing about the future and about the potential impact of events and this might be dangerous and costly.
- Proper CI practice requires resources (including people, time, priority, money and infrastructure).
- CI is not a stand-alone function. The outcomes of CI should be integrated with the business planning process.

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