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Freightliner Strategic Analysis

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Abstract: Evaluates the segment of the transportation industry Freightliner participates in and proposes early investment in improved technology.

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FREIGHTLINER STRATEGIC ANALYSIS

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External Environment

Nature of Environment

The transportation industry has seen a stagnation or relatively small growth over the past four years. Even though the markets are static the environment in which enterprises operate is highly dynamic.

Political issues such as taxation policies and regulatory policies are showing an increasing trend. The economic environment is failing to counter those effects due to forecasted higher interest rates and increasing energy costs. The environment overall is uncertain due to a global economy and the political scene.

A decreasing trend is consumerism, due to changing work ethics, is limiting the growth of the economy, and a shift in the job market from manufactured goods to services. There are very few ways to deal with this uncertainty. Enterprises operating in this environment must seek cost differentiation and manufacturing efficiencies to improve their financial standing for years to come.

Early investment in improved technology to counteract the onslaught of environmental and legislative reforms is a strategic issue from the remote environment.

Particular Business Environment - Industry Factors

An industry structure analysis suggests an oligopoly even though the number of competitors is high. But, the lion's share of the market is limited to a handful of actual competitors. High entry barriers keep new entrants from becoming a potential threat.

The industry as a whole is a mature industry, experiencing, on the average, 2% growth. Volumes are high or moderate depending on the market segment. The competition is based on differentiation of product cost and service. Price concessions are used for business development. Most segments have a derived demand and are subject to unitary elasticity. Most products, in various segments, are considered cyclical, normal goods.

The cost structure of this industry suggests high fixed costs due an intensive capital and labor investment. Profit margins are relatively low, on the average, 3%.

The most important forces driving the industry competition could be attributed to customer power and moderate product differentiation. High entry barriers reduce the risk of potential new entrants, while low switching costs and customer concentration create a constant threat to a company's dominant position.

Highly specialized and concentrated suppliers and the trend of virtual integration along the supply chain has caused supplier power to increase over the past few years. The price-value relationship could lead to increasing threats from substitutes, if the economic environment causes the gap between product and substitute to narrow.

Identifying Strategic/Competitive Position

Looking at the industry, seven critical success factors emerge: technological leadership, service, sales and marketing, financial strength, product development cycle, strategic alliances and management philosophy.

As an industry not in the high tech market, the level of technological advancement, even though critical in nature, no one company can achieve dominance or create a wide gap between themselves and their competitors.

Product differentiation is moderate and the competitive advantage is achieved through service and efficient distribution channels. The industry is cyclical, which mandates a short product development cycle. Time to market is essential in securing a dominant position in the early stages of product introduction.

Increasing material and energy costs have made strategic alliances and virtual integration an obvious choice for companies who seek to grow and diversify but share the risk and the profit.

As export markets open up, so does the potential for global competition. As global markets grow, management philosophies and organizational structures must be regenerated to compete as a global organization.

Freightliner ranked the highest in all key success factors except for management philosophies. Traditional, centralized bureaucracy, influenced by DBAG has led to Freightliner's lag behind Volvo in this area.

The four market segments examined were High COE, Medium Conventional, Long Conventional, and Emergency Vehicles. Freightliner has a dominant position in the Long Conventional segment in the U.S. as well as Canada. In the declining High COE market, Freightliner dominates in Canada but has weak market share in the U.S. Navistar is dominant for that segment overall. The Medium Conventional segment is stable with little growth, Freightliner occupies the number three spot in that segment. The Emergency Vehicle segment is a new market for Freightliner. The market, with an average 2.5% market growth is a non-cyclical market with high economic profit. Freightliner, through FEC and FCCC has a low, but growing, market share.

All four SBUs enjoy an above average business strength, although the market attractiveness for Freightliner USA, Canada and FEC is moderate. FCCC market attractiveness rates higher due to low entry barriers. Even though FEC and FCCC both have relatively low market share, in comparison to the other subsidiaries, their competitive positions in those markets facilitates their efforts to grow and achieve a dominant position.

Stakeholder Analysis

Power Matrices Analysis

Internal and external stakeholders were identified and analyzed using the Power/Dynamism and Power/Interest Matrices. The greatest danger comes from the employees, leasing fleets and owner operators, which makes them all key players and the most powerful stakeholders, requiring good stakeholder management.

Suppliers and dealers pose minimal threat. Federal and State regulatory agencies are manageable, though unpredictable.

Internal Environment

Resource Audit Analysis

The resource audit has shown human and technological resources to be potential threats to profitability and long term competitive advantage.

Cost efficiency at Freightliner is achieved through balancing the supply costs with economies of scale and the product process design with experience. The corporate effectiveness of meeting the clients requirements in product attributes, service expectations and price sensitivity is high due to the organization's capability in providing product features, high service performance and exceptional client communication.

The control of resources is an area where Freightliner might suffer a drawback. Their controls of physical resources, such as quality of product and stock control of materials, is adequate and well maintained.

In the human resource area, a deficient management philosophy could create a threat from one of the highest power stakeholders -- the employees.

Good control of image through public relations and industrial relations are well in place for the intangible resources even though industrial resources have suffered a setback in the past few months.

SWOT Analysis

One of Freightliner's strengths is technological leadership in the industry, brought on by innovation and a short product development cycle. The ability to match the customer requirements for service and product features has fostered brand name loyalty, image and reputation.

A strong dealer network and the ability to leverage DBAG's financial and technological strengths has helped Freightliner to increase their revenue and profits in spite of high manufacturing costs and low margins.

Weaknesses are an inherent part of every organization. A traditional, pyramid style organizational chart and an autocratic style of management has weakened the top down communication and is a leading cause of high employee turnover.

An aging workforce and a high specialization structure coupled with limited cross training are weaknesses that confirm the findings of the human resource audit.

Due to the nature of the industry and the dynamic environment in which it operates, Freightliner has to fend off various threats. At the top of the list are political threats including government and trade regulations and tax policies, leading to economic threats of increased interest rates and decreasing consumerism. The economic threats, in turn, cause industry simplicity and low market growth.

In this cyclical and mature market, opportunities still exist. As the barriers between suppliers, OEMs and buyers are blurred by virtual integration, opportunities in export markets (still in the embryonic stage), and potential markets such as emergency vehicles and alternative fuel technology must be approached.

This industry is a volume industry where a leading company has strong advantages even with a low number of possible differentiation factors. The Boston Box analysis identified two Cash Cows for Freightliner as the Long Conventional and Medium Conventional segments. Even though the High COE and Emergency Vehicle segments are Dogs, the opportunity for a turnaround should not be disregarded.

Strategic Options

Basis

Based on the market statistics and market share information for Freightliner, it is obvious that strategic options for each segment are limited.

For the Long Conventional market, a focused cost leadership strategy is the only option to maintain current dominant position in this low growth, mature market segment.

For the Medium Convention, Freightliner enjoys a strong position as the number three competitor and must seek a focused cost leadership strategy as well, to further market penetration and to attain a dominant position in the market.

For the Emergency Vehicle market, Freightliner, as a new entrant, must seek a differentiation cost leadership strategy to penetrate the market. Even though this is a static market with low growth, the potentially high economic profit is an opportunity that must be explored.

The High COE is another story. Statistical data has shown the market to be aging and in decline. But, projections for that segment lead us to believe that the High COE market will achieve commodity status, due to the current state and federal vehicle/trailer length limitations. This makes the High COE a candidate for a focused differentiation or retrenchment strategy.

Direction

To achieve the above mentioned strategies, Ansoff's Product/Market Expansion Grid provides the most likely direction per market segment.

For the Long Convention market consolidation is the method that is most often recommended for mature markets. By increasing emphasis on quality, marketing activity and improving cost structure, Freightliner should be able to defend their dominant position and achieve their focused cost leadership strategy.

For the Medium Convention market, penetration is the mean recommended to improve Freightliner's competitive position. Due to the static nature of this mature market, improving quality, productivity and increasing collaboration, i.e., strategic alliances, could facilitate such strategy.

For the High COE, Ansoff's Product/Matrix Expansion Grid recommends withdrawal from the market through divestiture for the retrenchment strategy. It also suggests achieving the focused differentiation through market penetration and development.

The Emergency Vehicle position in Ansoff's Grid suggests market penetration and market development as two methods to achieve differentiation strategy.

Methods

Three methods should be investigated for each segment in order to achieve the overall strategy: Internal Development, Mergers and Acquisitions and Joint Development and Strategic Alliances. Exhibit 25c shows each option as it relates to the specific segment. Strategic alliances and internal development are the two viable methods for the aging High COE segment.

A combination of all three methods would facilitate market penetration and development for the Emergency Vehicle segment.

Internal development is the obvious choice the dominant and strong segments of Long Conventional and Medium Conventional segments, respectively.

Strategy Evaluation

Suitability

A look at the SWOT analysis leads us to believe that Freightliner may have problems in achieving consolidation for their Long Conventional segment. High manufacturing costs and an inadequate management philosophy, as well as their low operating margins, could be barriers to achieving a cost leadership position. On the other hand, technological leadership and the ability to leverage DBAG's financial and technological resources could make this strategy suitable for Freightliner.

Threats from the industry's cyclicity and the potential for high interest rates do not constitute road blocks for the Medium Conventional market penetration strategy. An efficient sales force, a strong dealer network and brand name loyalty should help Freightliner achieve a dominant position in this segment.

The possibility of a turnaround f or the High COE market is difficult to predict. As a technological leader and having innovation as a part of their internal strength makes market penetration and development well suited for Freightliner's image and reputation and is highly consistent with their mission statement (see Exhibit 20).

An embryonic export market and strong strategic alliance are suitable criteria for the Emergency Vehicle segment's differentiation strategy. Leading the industry in short product development cycle, aided by innovation and a strong dealer network should help them achieve a dominant position within a relatively short period of time in this mature but vital market.

Feasibility/Acceptability

The strategic objectives are achievable and the implementation can be successful. Even though the corporation is operating in a very lean environment at the moment, the ability to build strategic alliances is the key to resource leverage.

All strategies discussed will require a certain level of internal development and increased efficiency. Although management philosophy is one of their weaknesses, Freightliner will be able to overcome that hurdle through a phased implementation plan.

The High COE strategy poses the highest financial risk for the company. The Emergency Vehicle market segment's high profitability potential is a key factor in the acceptability of that risk.

Overall, Freightliner's strong financial status , created through market dominance and DBAG backing, minimizes the company's trepidation caused by financial risk.

Freightliner is a corporation with a constant vision of growth and is looking toward creating and shaping the future of the industry, rather than succumbing to it's cyclicity.