Automobile Case Study: The Australian Automobile Industry

Overview

This report is based on the case study WHY OWN WHEN YOU CAN SHARE? NEW MODELS OF OWNERSHIP AND DISTRIBUTION IN THE AUTOMOTIVE INDUSTRY (Pride 2e, p407), which showcases a decrease in sales experienced by the Australian Automobile industry and how the manufacturers and retailers tackled the issue. The following content will provide case study background, SWOT analysis, relevant promotion and distribution theory, marketing concepts, as well as our answer to the case study questions, recommendations to these companies, and a conclusion. The group presentation is an abstract of the information gathered for this report.

1. Background

The Australian automobile industry witnessed a decline in sales between 2005 and 2012, where a 5.23% drop from 608,804 to 576,955 passenger cars was figured. Apart from the non-disposable nature of automobiles causing unlikely consecutive purchases, multiple outside factors also contribute to this occurrence: the cost of ownership becomes increasingly higher due to petrol, parking space and vehicle price tag, discouraging, further exacerbated by inflation of Australian currency. The popularity of social media and other distance communication also means there is less demand for transportation for people to get in touch. Last but not least, latest awareness about environmental concerns also discourage automobile purchase. This impacted major players from all market segmentation, from BMW and Mercedes representing high positioning/luxury market, to lower-middle tier market such as Hyundai and Nissan. Furthermore, the influx of online dealership/car selling websites also provide a new competition to the traditional dealership, prominent sites include carpoint.com.au and carsales.com.au (Carsales, 2018).

2. Case Analysis

A SWOT analysis model was selected to break down the characteristics of the traditional automobile sector players.

Their key strengths lie in its irreplaceable product functionality, as well as consistent and often excellent product and customer service quality, which creates brand reputation and loyalty. Their long-established recognition also brings readily existing partnerships and channels, where the brand essentially sells itself resulting in ease of advertisement.

The aforementioned causes of sales decline to form the threats they face. Automobile ownership is costly, due to vehicle price tag, fuel cost, maintenance cost, and parking space: especially in cities like Sydney and Melbourne were “a string of parking spots recently fetching prices well over $200,000” (Realestate, 2018). Alternative travel methods exist, such as bicycles, on-foot, or public transport such as light rails, buses and trains. A natural decrease in

demand is also in play, due to market saturation and mature of distant communication leading to less need for physical travel. Last but not least, increased awareness of environmental hazards caused by fuel-burning vehicles also arouse sympathy and resistance toward automobiles.

These threats hence revealed the weakness of these traditional industry powerhouses. The price of vehicle is unappealing and often unaffordable to customers. The tried-and-true promotion methods deployed by these companies are getting outdated and stale. Furthermore, distribution methods are also less customer-orientated than one could expect and cause inconvenience for the consumers.

That being said, opportunities still arise if these manufacturers apply their strengths to overcome these circumstances. Online dealerships, although stand as a form of competition, can also become a new marketing channel. The new shared ownership system, which will be covered in detail in later sections, provide similar quality of service while the customer pays less. The existing brand reputation and loyalty also serves as free advertisement, which further strengthens itself if the company continues to serve its customers valiantly.

3. Promotion and Distribution Theory

The main focus of interest is the concept of marketing channel. It is defined as an “entity that directs the flow of products from producers to customers (Pride 2e, p404). A marketing channel brings 4 types of utilities with it: Time, as such the product is available when needed; Place as such the product is available where needed; Possession, where access to use or store through ownership or arrangements is provided; and Form, including product assembly, preparation or refinement. A channel falls under 1 of 4 types, in this case a hybrid channel, a combination of direct (singular ownership, common control) and indirect (multiple members) channels whereby different channels are used to reach the same target market segment.

4. Company Marketing Concept

There are 3 highlights of the marketing concept deployed by automobile companies.

The first is its innovative Car Sharing Model. Essentially a new form of vehicle ownership where there is no outright ownership, each customer instead orders a vehicle when required and the vehicle is delivered upon request. The customer is charged per unit usage such measured in time or distance. This is a contractual agreement where suppliers and consumers reach a common understanding and act accordingly.

The second highlight is Fleet Management. This section of the customer service communicates with customers, while other key functions happen behind the scenes including transportation, warehousing and inventory control. The Fleet Management showcase and advertise their in-stock vehicles to potential customers and when a vehicle is ordered, relays delivery details and financial information to and from the consumers. This unique take on the physical distribution aspect of customer service is quite brilliant, in that it both facilitates the car-sharing service and advertises it.

The third highlight is Dealerships and hence the involvement of intermediaries. Often

considered optional, automobile companies utilize intermediaries as middlemen to reduce margin. There are several responsibilities for intermediaries, namely marketing information (data analysis, commission), market management (strategic for customer and organization productivity), facilitating exchanges (product assortment, partnership), promotion (advertising, personal selling, sales promotion, publicity, packaging) and pricing policies & terms of agreement.

5. Questions from Case Study

- Q1: The distribution component of the marketing mix focuses on the decisions and activities involved in making products available to customers when and where they want to purchase them. How does car sharing fit in with this statement?
- A: The car-sharing model dictates each shared owner can request access to a vehicle whenever and wherever required. The fleet management facilitates delivering vehicles to customers at the right time, at the right place and at the right quantities. Therefore the car sharing model fits within this statement.
- Q2: What type of channel is needed for car-sharing to be successful?
- A: A hybrid channel is required for this model to succeed. It involves direct channels such as vehicle manufacture and specialty retailer, as well as indirect channels such as fleet management, outsourcing customer support and general sale dealerships. These channels all focus on reaching the same market segment of shared vehicle owners. The above by definition calls for a hybrid channel type.
- Q3: How might strategic issues, such as issues in channel cooperation, conflict and leadership, apply to the char sharing model?
- A: Conflict of interests might cause contractual disagreements and misunderstandings that impact cooperate partnerships. Also, if one channel fails to perform up to standard, or miscommunication occurs, channel cooperation will suffer, and the overall customer service performance is also affected. Furthermore, possible leadership change/unease means the executive management layer may experience reduced efficiency whose decisions radiate throughout the operation.

6. Recommendations

- Automobile companies should focus more on new media to advertise their products, such as online dealerships, social media, website advertisements, etc.
- Automobile companies could look into new ownership concepts such as car rental, shared ownership and so on, to be more customer orientated.
- Lastly, complementary services should be provided to tackle challenging issues faced by customers, like faulty repair assistance, parking space allocation, loyalty discount, etc. These efforts accumulate to enrich the customer experience.

7. Conclusions

The AU automobile market experienced a decrease in sales due to a variety of factors. The automobile companies adapted to the situation by introducing the new car sharing model. This learning gave us the opportunity to learn more about promotion and distribution marketing strategies, as well as understand the key roles of marketing channels and intermediaries in complex business operations. It also forewarns any business who intend to thrive, that one’s

customer service should always strive to be customer orientated, and arising customer needs should always be met instead of ignored.