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Allegheny College
Meadville, Pennsylvania
16335

The Importance of Defining Strategy: A Case Study of the General Motors Company



Joshua Bobrow
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by

Joshua Bobrow

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Project Advisor: Professor Stephen Onyeiwu

Second Reader: Professor Stephen Casler

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I hereby recognize and pledge to fulfill my responsibilities as defined in the Honor Code and to maintain the integrity of both myself and the College as a whole.

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Joshua Bobrow

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Abstract:

In every year from 1931 to 2009, General Motors led all Automobile Manufacturers in the number of vehicles sold. General Motor's strategy, the main reason why the company maintained dominance during that period, has now come under fire because of its recent bankruptcy filing and company mismanagement. This paper attempts to disprove Michael Porter's idea of strategy by showing that General Motors possesses unique activities and competitive advantages over other firms in the automobile industry. The mismanagement of a company does not establish that a company fails to have a strategy but, rather, that it is not properly using its competitive advantage. In General Motors' case, management's focus on short-term sales and revenue, instead of long-term profitability, reduced General Motors's competitive edge against other automobile manufacturers. General Motors, however, as in the past, is still one of the market leaders in hybrid technology, safety features and automobiles sold. This paper proposes that the appropriate business strategy is for a company to use its unique attributes and competitive advantages to position itself for long-term viability.

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Chapter 1: Introduction

Each day, ordinary people look at different mission statements; each made for a company by their public relations staff and believes that they are looking at the company's strategy. A strategy to most people is a statement that companies make; it is not based on actual activities. However, these mission statements are not strategies, but instead they are summaries of what the company might do. However, in the field of economics there is not one dominant view of strategy. Instead, there are five different ways to describe what a strategy should be. Michael Porter, one of the most influential economists in the world brings one explanation of strategy forward. Porter (1996) states that strategy can be defined as "defining a company's position, making trade-offs, and forging fit among activities" (p.77). These ideas are all important to a company's well being.

The problem with Porter's model is that it does not accept the idea that a company can have a bad strategy, because Porter (1996) believes that if a company has a strategy it will have a long-term competitive advantage over other firms in the industry because of the combination of its activities. Another major problem with Porter's (1996) theory on strategy is that it does not explicitly state how often a strategy should be modified or changed. This is important because if the competitive environment changes and the firm continues to follow the same strategy, the firm will lose business, which could eventually cause the firm to fail. The absence of time is especially important considering the economic circumstances we are in. The best theory about strategy in the 21st century comes from Hambrick and Fredrickson (2001), who state that a strategy is "an overarching concept of how the business will achieve its objectives" (p.48). Hambrick and Fredrickson (2001) argue that instead of trying to develop strategy around Porter's (1996) ideas of "defining a company's position, making trade-offs, and forging fit among

activities", a company should focus on five key elements of a strategy: arenas, vehicles, differentiators, staging and economic logic (p. 77). This type of analysis provides a definition of strategy that is not provided by Porter's article. It gives the company a way to see what the overall product of the strategy should be, rather than in Porter's ideas of just finding strategic fits within industries. This is especially important in the automobile industry in the current age.

Founded in 1908, General Motors is the epitome of a struggling American manufacturing company. Founded by William "Billy" Durant, General Motors rose to the top of the industry in manufacturing with the ad campaign of "a car for every purse and purpose." It was the first automobile manufacturer to offer different types of vehicles, in order to serve to customers who were not all wealthy. Their strategy was that of a differentiator, unlike that of Henry Ford, who offered only a couple of models. General Motors, offered more models developing the brand names of Cadillac, Buick and Pontiac, which was originally Oakland. General Motors was an early entry into the automobile market and often used this advantage against other firms by expanding world-wide when the automobile market was in its infancy by purchasing companies such as Opel in Germany in 1929. By being such a large firm, General Motors enjoyed economies of scale for many years, which allowed it to be way ahead of the market in terms of technology. Even though General Motors enjoyed success through the 1960s, the company faced its first major problems in the 1970s. Although General Motors had been way ahead of the game in developing new technologies for its internal combustion engine, General Motors did not look into the possibility of newer, cleaner technology for cars. General Motors had developed the first cars that could run on unleaded gasoline and catalytic converters that would reduce emissions released from cars. However, it did not plan for the oil crisis that would eventually allow other competitors who made more fuel-efficient automobiles to enter the market. At this point in time

competitors such as Toyota, Honda and Nissan did not have a very big market share, but they entered a market selling fuel-efficient cars and unlike General Motors were listening to consumers about what changes they wanted to see in the car, as well as employing a strategy of beating government regulations for emissions and fuel consumption. By the 1980s and 1990s, these Japanese automobile companies were offering new and innovative products in the American market that had consumers switching from General Motors. General Motors had not made any revisions to its strategy since its inception which caused problems when it started losing market share to competitors that had just entered the world automobile market. General Motors had grown so large that it was unable to be successful without being the market leader in automobile production. This was mainly due to the cost of labor, legacy liabilities and inefficient production that was caused by the contracts agreed upon with the United Auto Workers labor union. With just labor and legacy liabilities the Japanese automobile companies had a $29 billion advantage over General Motors. General Motors was a company that would have been forced to reorganize in the near future whether or not the economy had fallen into a recession, but it might not have been forced into bankruptcy. However, with the economy in a recession General Motors, quickly fell because of its rising costs and with a loss of $38 billion in 2008, was forced to declare Chapter 11 bankruptcy.

In this paper I plan on showing that Michael Porter's idea of a strategy is incorrect by using General Motors to show that a company can have a strategy, but, if it fails to change to the competitive environment, the company can lose its place in the market. However, this does not mean that a company does no longer have a strategy, which is what Michael Porter states. Early on General Motors planned to be a differentiator in the market. For many years it worked until other companies were able to gain a spot in the marketplace because of General Motors's

inability to produce cars that were fuel-efficient. The problem for General Motors was that, when the automobile environment changed, the company did not alter its strategy. Therefore, General Motors's strategy became outdated which is why they lost their title of market leader in the production of automobiles. General Motors could have avoided this problem if it had altered its strategy in the 1970s, instead of selling the same product line for the next thirty years. By showing that General Motors had a successful strategy will prove that a company can have a strategy and still fail if it does not adjust its strategy towards market changes.

In the chapters that follow, I plan on showing how a company can have a strategy and unique activities, but still fail due to market changes and poor management that can affect their strategy. In order to prove this statement I plan to develop the concept of strategy through my literature review, mainly focusing on Michael Porter and Hambrick and Fredrickson. Through Hambrick and Fredrickson's definition, I will use the automobile industry to explain how a company such as General Motors can have a strategy, but can fall victim to market changes, even if it still has unique activities no other company possesses. The empirical chapter will prove General Motors had a strategy through Hambrick and Fredrickson's definition of a strategy. It will also show how the market change had such a dramatic effect on their strategy, which allowed Toyota, a company with a completely different strategy to take over as market leader in the automobile industry.

Chapter Two: Literature Review

The purpose of the chapter is to introduce the argument about what constitutes a strategy in order to later prove that General Motors had a strategy. According to Michael Porter (1996), a strategy is "defining a company's position, making trade-offs, and forging fit among activities" (p. 77). While these decisions are important to a company, it does not give an executive any way to create or enhance the firm's strategy. In this chapter, I plan on proving that a strategy needs to involve the five major elements introduced by Hambrick and Fredrickson, as well as proving that a firm can be become unsuccessful, even if it has unique activities.

When looking at the concept of strategy in economics, it is important to look at the work of Michael Porter. Michael Porter has written many articles about strategy and how important it is for a company to have a strategy. In his article entitled "Competitive Strategy," Porter (1996) first introduces the idea of "generic strategies" (p. 67). These strategies explain how a company should employ one of three specific strategies, which Porter (1996) says are "cost-leadership, differentiation, and focus," in order to allow themselves to focus on key activities to better compete in the marketplace (p.67). This article leads into his much more controversial article entitled "What is Strategy." Porter (1996) makes many key points in the article, the first of which is introducing the idea that operational effectiveness is not a sustainable business strategy. This is important because one of the biggest misconceptions about General Motors is the argument that it was implementing operational effectiveness, instead of employing a strategy.

According to Porter (1996), the difference between operational effectiveness and strategy is that operational effectiveness means that the firm is trying to make improvements in operations in order to control costs, without changing its product (p.62). Instead of trying to

change the product it sells, the firm wants to maximize profits by minimizing total cost. The problem is that using this method to increase profit will only lead to profits in the short-term, if it leads to profits at all. There is only so much a company can do to cut costs and remain competitive. While a firm should never run as an operationally effective firm to replace its strategy, it should be operationally efficient, unlike GM which was operationally inefficient because it could not control its substantial labor costs.

This concept of strategy is unique because Porter (1996) starts by stating, "a company can outperform rivals only if it can establish a difference that it can preserve" (p.62). This statement leads Porter (1996) to describe the importance of performing "unique activities" because that is how a firm can position itself against competition (p. 64). If a firm has activities that are unique to that firm, it will give itself an advantage over other firms in the industry if that specific activity is sought after by consumers. In the article Porter (1996) uses the example of IKEA, which makes the trade off of service for cost in producing furniture by selling furniture that the consumer has to assemble. In doing so, IKEA is performing the activities of a furniture store differently than its competitors, which has, in turn, allowed it to keep costs down, while offering furniture that consumers want at better prices than average furniture stores. Another idea that Porter (1996) stresses is the need to use "strategic positions," in order to serve its "customers' needs, customers' accessibility" or to create a position based upon the variety of a product or service that a company creates (p.66). IKEA does this by offering services such as extended hours and in store daycare (Porter 1996). The use of strategic positioning is important for any company, because if you do not offer your customers a unique product your company will not be sustainable, and GM is realizing that out now.

The most important argument from the article is that it is imperative for a firm to position its activities so that it cannot be imitated. If a firm is successful, but its activities are easily copied, other firms will not hesitate to try and imitate. In fact, there is a good probability that if a firm is making large profits but cannot create unique activities, then other firms will enter the market to imitate them and share in some of the profits. This is the case in the electronics industry where companies such as Sony, Samsung and LG always compete to come out with new technology, only to see within a few weeks its competitors, such as Hitachi and Sanyo, come out with similar technology for a lower price because they do not have to invest in the research and development that the previous companies use to produce their products. The only reason why these companies are so successful is because they perform the last part of Porter's argument very well. These companies keep their competitors away from their success because their value-chain cannot be imitated because they choose activities that "fit" into their overall company strategy. In order to ensure that they can keep other companies from copying their strategy, the company has to make sure that copying individual activities is unsuccessful, because if it possible to copy individual activities within the company's value chain, then the company is not sustainable.

One of the main problems with Michael Porter's article is that it doesn't describe how the company should achieve its objectives. An article that describes the changes in the definition of strategy that are necessary in today's business world is "Are You Sure You Have a Strategy?" written by Donald C. Hambrick and James W. Fredrickson (2001). In their article they argue that a strategy is based upon providing answers to a set of five questions. The first of these questions for the firm to answer is "Where will we be active?" (Hambrick and Fredrickson 2001). The authors state that companies should explicitly specify which "product categories, market segments, geographic areas, core technologies and value-creation stages" it will be most

involved in (Hambrick and Ferguson 2001). By doing so, the company will specify how active it will be in each particular category as well as in choosing how much emphasis it wants to put on each one of these specific issues, which will show the company where it should focus. By forcing the company to be as specific in answering these questions, there will be no confusion about where the company wants to go, as well as potentially cutting down the costs of unnecessary research and development that does not fit into the company's activities.

The next question is "How will we get there?" (Hambrick and Fredrickson 2001). That is, how will the firm determine how they get their product to its customers. Key questions that the firm must consider when thinking about how they to get the product to the customer include, "how much should it develop its internal infrastructure, should it form a joint venture, is it better off licensing and/or franchising its product and should it acquire others firms in the same market?" (Hambrick and Fredrickson 2001). The importance of choosing which way the firm plans on getting its product out will keep it from making mistakes that would make the product more costly, come out late, or force it to be abandoned. By not employing a method for ensuring it is getting their product out, a company will be putting itself at a severe disadvantage because of the uncertainty that it will face when releasing its product.

The third question that the article asks is "How will we win?" (Hambrick and Fredrickson 2001). This question supports the claims made by Porter about why it is important for a company to be a differentiator. The questions that a company should ask itself in order to address the third element of strategy are; what is our "image, customization, price, styling and product reliability?" (Hambrick and Fredrickson 2001). The answer to these questions is important because it will determine how the company plans on selling its product versus its competitors.

The differences in the product have to tempt the consumer to buy the product, which means that the way the product is specifically designed should give the firm a competitive advantage

The fourth element of a strategy forces the firm to think about its future. By asking the questions of how quickly we should expand and in what order we should do it, firms are able to focus on factors that should be addressed in the long run, such as resources, urgency, achievement of credibility and gaining early wins over its competitors (Hambrick and Fredrickson 2001). This element is addressed by the authors because of how little it has been mentioned in other economic literature. By addressing this element, the company gives itself a vision for the future by planning goals and setting itself a target to get to (Hambrick and Fredrickson 2001).

The final element is addressed by a series of questions in economic logic. This question should address the issue of how can we make a profit or make money from the product we sell. Some of the factors that the firm should think about when it is creating a product are whether or not it is possible for the firm to enjoy lower costs because of economies of scale, will it gain lower costs by focusing its activities and imitating its competitors (Hambrick and Fredrickson 2001). If the firm wishes to charge a premium price for its products, it should look at whether or not its products or services are comparable to the industry and if the features that are included in the product or service are the reasons why the price is higher than its competitors in the industry.

With the recession still looming over businesses today, the reason why Hambrick and Fredrickson's concept of strategy and its five elements will work better than Michael Porter's idea of strategy is because of the changes in information and technology. When Michael Porter wrote the article "What is Strategy" in 1996, technology was not as wide-spread as it is now, where companies can access the Internet and are readily able to see what their competitors are

doing. This means that companies need to adjust their positions much quicker than in the past. This can be seen in many different companies and it especially applies to the automobile market, where competitors can see cars that each manufacturer is going to produce years in advance. In the Hambrick and Fredrickson article, the authors state that strategy used to function in five to ten year intervals, but now a company should look at only having a strategy for two to three years in order to assess the market conditions in the present, but also to take a look into the near future (Hambrick and Fredrickson 2001). The problem with the article relates to the fact that it does not explain how a company can fail. However, it infers that companies can fail by not fully-developing each of the five elements. This is important because it provides evidence for the fact that a company can have a strategy and still fail.

As mentioned in the previous article, one of the biggest concerns surrounding strategy at this point in time is the question of how long can a strategy be successful? This is especially important in the automobile industry, especially in reference to GM, which has had the same strategy since the 1920s as a product differentiator, offering people more choices than any other automobile company. Jeffrey Williams (1992) starts off his article entitled “How Sustainable is your Competitive Advantage?” by arguing “Innovation can give a company a competitive advantage and profits, but nothing lasts forever” (p.29). Time is a crucial factor in many strategies, depending on the competition in the market and how quickly the technology is changing. Management needs to be able to link the firm’s core competencies to every strategy that the firm creates. The main issue in the article is the relationship between environment, time and how strategy can create interdependencies (Williams 1992).

The article advances the idea of strategy because it gives five examples of how strategically thinking about how sustainable a company’s product is can help the management of

the firm to make important decisions, because it can “estimate product life-cycle patterns, forecast dynamic pricing patterns, project life-cycle manufacturing targets, estimate, brand durability and establish strategic guidelines for organizational learning processes” (Williams 1992). The importance of these five factors is that they can give the managers the insight to see how their activities fit as well as assess the market conditions that they must adjust to.

However, the most important part of the article comes from the section entitled “The Spectrum of Resource Sustainability.” This section of the paper breaks up how easily imitable resources are into three different classes in order to show how time moves faster when a firm’s resources are easily imitable. The first class of resources is those that are “slow-cycle resources” (Williams 1992). These resources are those that are virtually impossible for competitors to imitate. Therefore, these resources are core capabilities that can create an advantage for the firm because they have a longer shelf life than all the other classes of resources and can survive many changes in strategy. The second class of resources known as “standard-cycle resources” is characterized by mass production and standardization (Williams 1992). Companies with such resources do not face the same type of competitive advantage that the companies that possess class 1 resources do. However, it is still possible for a firm to gain a hold on the market by spending additional money on research and development and providing superior education in the company (Williams 1992). These companies typically have more imitators due to the fact that the profit margins that are available are high because of the high volume and standardization of the products they sell. The final class of resources faces the biggest challengers because they have “fast-cycle resources” that do not have a sustainable competitive advantage. The reason is because there is no customer loyalty for the first-mover. Rather, its competitive advantage as a first-mover is lost as soon as another firm comes up with the same product that is slightly lower

in cost (Williams 1992). The market for such products is very dynamic, and in order for a firm to remain competitive it must invest heavily in research and development (Williams 1992). These firms face the most pressure as compared to firms in the other two classes of resources because they are the most likely to be imitated, which means a failure to innovate can quickly lead to the demise of the company.

While this article helps to advance the understanding of how markets work, it fails in answering the questions about how markets are changing. Instead, it only provides the answer that markets are changing quicker than we can give a definition for strategy. However, the most important aspect is what GM failed to address, and that is that markets fail over time and adjustments need to be made in order to address the changing markets. Therefore, if a company wants to be successful, it must constantly be searching for ways to create change within the new framework of the market which will depend on time.

With the different classes of imitators, it becomes even more important to examine how easily a firm can imitate a complex strategy. According to many economic theorists, having a complex strategy can create a barrier for competitive advantage because companies cannot emulate the value chain due to the probability of failure to replicate the exact activities of the company (Porter 1996). It has been shown that, when there is a great amount of imitation within an industry, there will be lower profits for the industry (Rivkin 2000). This means that, in these types of industries, firms try to limit the number of competitors in the industry in order to prevent imitation and keep profit margins up (Rivkin 2000). However, even when more competitors enter industries, they are unsuccessful in gaining the profit margins of the incumbents, which is one of the reasons why it is important to look at how the complexity of the strategy of the incumbent can serve as a barrier to entry (Rivkin 2000). The definition of complexity is of

utmost importance when looking at how hard it is for a firm to imitate another firm's strategy. In the article, Rivkin pulls his definition from Simon (1962), in saying that complexity should be defined as the "sheer number of elements in an item of knowledge and the degree of interaction among those elements" (Rivkin 2000). These arguments about how having a large number of activities that interact within each other support the argument made by Michael Porter in his article "What is Strategy." The argument that this can stop imitation is important because there are three main points that allow the complexity of strategy to be a barrier to entry (Rivkin 2000). The first is that the new firm must make the same decisions concerning all the elements of the strategy (Rivkin 2000). Next, all the elements must interact the same way as the firm it is trying to imitate and finally, there must not be any other barriers to entry (Rivkin 2000). If the firm makes one mistake in trying to imitate another firm's strategy, it will lead to failure because the elements will not interact the same way. Therefore, even though many firms have had their strategies publicly scrutinized, the reason they have not been imitated is because their complex strategy serves as a barrier to entry (Rivkin 2000).

While complexity can be helpful for firms because it can deter competitors from attempting to imitate a firm's strategy, it can also be harmful as is the case for GM. In Levinthal's (1997) article entitled "Adaptation on rugged landscapes," the point is brought forward that the type of "coupling" that firms seek in order to detract their competitors from imitating them can actually hurt them. The reason is that companies that have these very complex strategies can actually restrict themselves from being able to change in the marketplace. Which helps to explain why GM has not lost its market share due to an imitator, instead it lost market share to a firm that has created a new complex strategy that serves its customers needs in Toyota.

With all the changes that have been occurring in the competitive environment, it is important to note that there is a reason why companies continue to make mission statements. These statements used to be created in order to keep a strict vision of the company for years to come (Zeleny 2008). While these statements used to be important, they no longer are as valuable to a company. As Zeleny (2008) points out, every company has a strategy; whether or not what you are saying is what you are actually doing does not matter. Rather, the most important part of the strategy is whether or not it is effective. One of the biggest problems affecting companies is their ability to implement the strategies that they are talking about (Zeleny 2008). In other words the inability of the company to perform an activity because of a lack of knowledge in their strategy, which is why the mission statements that companies make are dangerous because they substitute action for knowledge and create a gap (Zeleny 2008). Even though these mission statements provide appeal for shareholders and investors it should be how the firm executes and not about how well they produce a written statement (Zeleny 2008). Therefore, the most important part of the strategy is its implementation and that is what firms should focus on.

Many economists have different perspectives on what constitutes a strategy. The problem that this raises is that there is a lot of conflicting literature on the definition of strategy. Part of the problem can be attributed to the rapidly changing business environment. Most of the time the definitions change because the environment has been dynamic and methods that have worked years ago such as creating mission statements and developing narrow goals do not work today, where technology is quickly changing. This is especially true because if a firm does not invest in a new innovative technology it is possible for it to fall behind its competitors. Therefore, with the ever-changing business environment the literature is never able to catch up with what is actually occurring within these companies while it is still relevant. Instead, economists attempt to

understand how using the newest methods that firms have been using may help other firms to become successful.

This chapter has explained some of the literature that is available in the field of economics for the concept of strategy. It provides the general definition for a strategy, by stating that a strategy should have five major elements. This outlines the theoretical concept of strategy is that in the empirical chapter, statistical evidence can be used to prove that General Motors possessed a strategy, even though it filed for bankruptcy and still had unique activities in the production of automobiles.

Chapter Three: History of General Motors and the Automotive Industry

The purpose of this chapter is to give examine the business structure and market changes that have affected not only General Motors, but the automobile market as a whole. The reason for the dedication of a whole chapter to the history of the automobile market is that, unlike most markets, the automobile market has only seen three market leader changes in the last 80 years, with General Motors out-producing Ford in 1931 and holding that market leader status until 2008. Since the history of the automobile market is integral to understanding the strategy of General Motors, it is important to get an in-depth look at the automobile market since its infancy.

One of the most important concepts to consider about the automobile industry and specifically General Motors is that the big three major automobile companies in the United States face problems largely because of the changes that have occurred in the automobile market, government regulations and consumer expectations. This can be seen starting from the introduction of the automobile all the way through to the General Motors bankruptcy. Unlike most companies in the early twentieth century, William Durant had a vision for General Motors that was different than any business practice at the time. While most businesses were holding companies or small businesses, Durant had the idea of bringing together the best automobile makers of the time together to form one company that provide consumers with the wide range of products they desired (Wysner 1994).

Through this idea, William Durant brought together Olds, formed by Ransom Olds and Henry Leland, Cadillac, formed by Henry Leland once he branched off from Olds, GMC, formed by the Grabowsky family, and Buick, which was William Durant's company, to form the General Motors Company in 1908 (Wysner 1994). This business structure would set the

precedent for how General Motors would differentiate itself from its competitors. During the time that General Motors was formed, Ford was only producing one car model known as the Model T. However, Ford had a significant cost advantage over General Motors. Henry Ford had been successful in creating the first mass-production/assembly line, which created an inexpensive car that was easily maintained (Wysner 1994). This gave the Ford Motor Company the advantage in market share over General Motors for the first twenty years of the automotive industry in the United States (Wysner 1994). More interesting is that Durant did not manage to keep General Motors profitable after building the company and was forced out by his creditors in 1910, the equivalent of bankruptcy (Wysner 1994). Not easily deterred, Durant formed the Little Motor Car Company and combined with Louis Chevrolet to form Chevrolet Motors in 1912 (Wysner 1994). Through Chevrolet Motors, Durant was able to build the first real competitor to the Ford Model-T, known as the Chevrolet 490. This car is characterized by the high profit margin that it made for Chevrolet Motors, which allowed Durant to buy back General Motors in 1918 with a 5 to 1 stock sale (Wysner 1994).

General Motors and Ford had changed American society with the production of the automobile. Before the production of the automobile, most of the country was focused on agriculture; by 1925 more people were moving into cities in order to work for GM and Ford. Previously farmers, these incoming workers saw a middle-class life ahead of them with the $5.00 per day wage that Ford was offering its employees. GM and Ford managed to become the only real competitors on the market, which allowed them several advantages because of the growth of the automobile market. However, this was just the start of the wage problems that would come to haunt the automobile industry in the present day. Instead of offering the average wage of most companies of the day, which was around $1.00 to $1.25 per hour for a skilled craftsman, Ford

increased its wage to $5.00 per day for workers, who would come from all over the country (Wysner 1994). These unnecessary jumps in wage in the 1920s started the overarching philosophy that these companies should pay middle-class wages to their employees; which wouldn't cause a problem for many years. However, once foreign competition entered the market in the 1970s it proved to be a very serious crisis for General Motors and Ford.

During the 1920s another big difference arose between Ford and General Motors. Ford wanted to standardize its product and become as operationally efficient as possible. Wherever Henry Ford could make a cut in order to make a greater profit or increase the wage rate of his employees, he would do it. This meant that Ford would only produce the Model-T, as well as ignore any attempt to market its automobiles. This is how General Motors finally managed to differentiate itself from Ford.

Under the direction of Alfred Sloan, who is considered by many to be the mastermind of General Motors, a new strategy was crafted to build different cars for different price ranges in order to ensure that General Motors would still be successful under any economic circumstance that the country would go through. This resulted in the start of General Motors marketing campaign that would become the company's "cradle-to-grave" strategy known as "cars for every purse and purpose" (Wysner 1994). This campaign can be seen as the original concept for modern marketing campaigns and was successful because the marketing directed certain cars towards people of different classes. This allowed General Motors to target individual people, unlike Ford which figured that it should produce as many cars as it could at the lowest price. General Motors cars became a symbol of class because of their efforts in the mid-1920s. However, success did not come without increased competition. The third leg of the big three

Chrysler was developed in the 1920s and had a very successful debut because of the leadership of the one-time General Motors manager Walter Chrysler (Wysner 1994).

From the mid-1920s to the mid-1940s, Alfred Sloan crafted a brand new innovative strategy for General Motors unlike anything the business world has seen before. This brand new strategy split the operations of General Motors, allowing the divisions to act independently in terms of styling and the type of market segment that they would attract, with each division priced according to its target market. Sloan priced the divisions so that customers would be able to own a car that matched their status, which is part of the reason why Cadillac still has prestige and name recognition in modern times. Starting with the entry level car, Chevrolet, the goal for consumers was to work their way up through the divisions in order to get to the ultimate car, which was the Cadillac. Using the car as a status symbol was a very important part of Sloan's plan, which restructured General Motors right in time for the Great Depression.

Using a fairly new plan and getting into other industries allowed General Motors to not only survive the Great Depression but to take over the market share from Ford in 1934, as well as continuing to grow in profits. The new plan that allowed GM to grow was again a part of the company that led it to grow in the early years but failed in the most recent years. The idea that General Motors would be profitable as long as it produced at least 80% of capacity gave General Motors a break-even point (Wysner 1994). As long as General Motors stayed over this break-even point they would be profitable, and, by pushing their cars through the dealerships during the Great Depression, General Motors was able to remain profitable at its 80% capacity (Wysner 1994). Another reason why General Motors was able to survive the Great Depression was Alfred Sloan's friendship with President Roosevelt. Before the Great Depression, General Motors had expanded into other businesses such as "radio, aircraft and airline ownership, banking, diesel

engines, commercial trucks, refrigeration, and government contracts" (Wysner 1994). It was through these other interests that President Roosevelt contracted General Motors to make the trucks for the jobs created by the New Deal. With production increased by the new demand for GMC trucks, General Motors was able to increase profits even further and experienced a strong period of growth, while many other companies were failing (Wysner 1994).

Even though General Motors had increased profits throughout the depression, it was after World War II that it would see some of its biggest gains. With all the automobile companies in the United States switching their production to the war effort, no new automobiles were released from the span of 1941 to 1945. Instead, the companies decided that they would focus on the parts and service aspect, while the men went to war and the women saved money from the factory jobs that they had to take over, due to the demand in the manufacturing industry. Therefore, once the war was over there was a build-up of demand, which would lead to one of the biggest booms of the automobile industry.

In the years following World War II, the United States would become the global economic leader because of the success of companies such as General Motors. Factors that contributed to this success include "high employment, low taxes, low inflation, and plentiful and inexpensive fuel" (Wysner 1994). General Motors expanded on its strategy in the fifties by making sure to stress styling, new automatic transmissions and high compression engines, which would lead to the performance cars they created such as the Pontiac GTO and the Chevrolet Corvette, since the higher compression motors would lead to higher horsepower numbers (Wysner 1994). During this time period, Alfred Sloan was able to pass all costs onto the consumer as General Motors controlled 60% of the market share in automobiles. However, there were also no concerns about problems that would come to light in the 1970s, such as fuel

inefficiency, safety, durability and the major focus now on environmental protection (Wysner 1994).

Problems that would haunt General Motors were starting to arise. The first of which was anti-trust pressure against General Motors and DuPont, because of the market share that General Motors maintained in the automobile industry. With the Ford Motor company restructuring, General Motors was running away with the market share. This led to pressure on dealers and the government to closely monitor General Motors. Eventually the dealers would file a lawsuit stating that General Motors was giving them inventory they couldn't sell and proving that the franchise contracts were unfair. General Motors eventually settled this out of court in the late 1950s; however it became widely known that the settlement had favored the dealers (Wysner 1994). Finally, one of the biggest blows was dealt to the American automobile industry with the creation of Japanese and German automobiles that would have far lower production costs because of the labor union contracts. This was how the new firms would gain a significant advantage over the Big Three American automobile manufacturers. Since these automobile companies had been only competing against themselves without any foreign competition, the United Auto Workers forced them to raise wages. After the introduction of the foreign competition, the domestic automobile manufacturers were faced with a large wage disadvantage that would continue to become larger over time. Also, Japan soon became known for having better quality cars than the American manufacturers, something that would start to diminish market share. During the late 1960s to 1980s period, General Motors became out of touch with consumers worries about quality, the environment and safety, which led to problems when the automobile industry switched to a market-driven industry. It was at the end of 1980, which for the first time General Motors posted a loss. This was due to the fact that Toyota and Nissan were

not just competing against the American automobile companies; they were starting to take over the market raising their market share to 21.2% of the market (Wysner 1994).

The biggest problem with General Motors was that in order to compete, it would need to alter the strategy that made the company so successful. However, without the leadership of Alfred Sloan, the reorganization would prove to be a massive failure. Some of the key components of General Motors was the “cradle to the grave” strategy, brand image and the fact that their products did not overlap in price, which meant that they targeted different types of consumers (Wysner 1994). However, with the reorganization plan, General Motors divisions started producing cars that were priced in competition with each other, which lead to the loss of divisions in the marketplace and overall brand image. This, in turn, went against General Motors overarching “cradle-to-grave” strategy, which caused confusion for employees because they were working without a sense of direction. The only positive from the 1980s was the development of Saturn a car that General Motors had created in order to give the company a fighting chance against the foreign automobile competition that had entered the market. However, it would be nearly impossible for General Motors to match the quality and the total cost numbers that the foreign automobile companies were maintaining, meaning that the companies needed to change quickly.

After realizing how important quality was to the consumer, General Motors and the rest of the domestic automobile industry addressed their quality problems in 1983 and 1984. This led to complete industry focus on quality and by the 1990s the American automobile companies had managed to match or exceed the quality of the Japanese automobiles (Wysner 1994). However, this became just one more factor of the automobile that was now expected by the consumer. It also has led to what many in the automobile call the “halo effect” (Wysner 1994). Similar to the

first mover advantage, the “halo effect” is the idea that once the company is able to develop its reputation in one aspect of manufacturing or producing a product, it will have a competitive advantage, until another company can prove it is significantly better in producing that product (Wysner 1994). Therefore, first mover advantage can be crucial in preparing for changes in the automobile market. The best example of this “halo effect” comes from Japanese automobile manufacturers, who gained first mover advantage in automobile quality and reliability. To this day, because the Japanese cars have been known for the quality and reliability, they are still thought to have best quality. Even if a different carmaker has had better ratings, within a given year or model, Japanese automakers are considered to be better quality and more reliable because no company has had better ratings over a significant period of time. Their first mover advantage in quality and reliability has given them a competitive advantage in terms of consumers’ perception. The big changes in the 1980s dealing with market changes, quality and technology forced General Motors to restructure and launch the product line Saturn in order to better address customer needs.

Even after the restructuring of General Motors in the 1980s, General Motors market share continued to decline in the 1990s due to a number of reasons. One of the biggest differences in the 1990s was the increasing popularity of the Internet and the fact that many customers that were planning on buying cars now knew more about the cars than even their dealer representatives knew. The use of the Internet allowed customers to have access to statistical information that companies had just received access to just a few years previous. Now with sites such as Edmunds, JD Power and Kelley Blue Book, consumers could research information about any car and determine how it matched up against the other cars they were viewing. This changed caused a bigger problem for General Motors, because their cars still had not caught up to the

quality of the Japanese automakers, even though they said that they had. The marketing campaign that General Motors had relied on, which was the basic premise that consumers would buy the car based on looks and feel had changed. Consumers are no longer looking for the bells and whistles on a car but are focused on quality, durability and green technology. General Motors clung to the idea of the past, by trying to appeal to emotion and instead of developing quality cars, developed more sports cars in an effort to appeal to males buying cars. General Motors has continued to refuse to revise its strategy and lost market share over the last thirty years because of its reluctance to change.

Since filing bankruptcy on June 1, 2009, General Motors has gone through a number of changes to try and make itself profitable in the future. By filing for bankruptcy new General Motors does not have to face many of the liabilities that old General Motors had to face. The biggest of which, was the United Auto Workers massive legacy costs. Soon after filing for bankruptcy General Motors cut Pontiac, Hummer and Saab from its line-up in an effort to downsize for the decreasing number of cars demanded. By letting go of these three brands, the break-even point for General Motors decreases to 10 million cars instead of 16 million cars, a considerable difference considering the state of the economy and the decreasing demand of automobiles. However, going forward the biggest problem that General Motors faces is how the public will react to buying cars while the company is under bankruptcy protection. So far, there has been a significant decrease in General Motors market share, however the introduction of a leaner car line by General Motors including new models such as the Chevrolet Volt and Chevrolet Cruse look to put a dent into the most recent drop in total market share, as well as the massive recall of Toyota putting General Motors new marketing campaign “May the Best Car Win,” in a much better position to compete with the rest of the industry.

This chapter has provided the background information for understanding General Motors and its competitors. By doing this, it allows the next chapter to focus on the empirical data, which will prove through Hambrick and Fredrickson's model that General Motors had a strategy, even though it filed bankruptcy and still had unique activities. By proving that General Motors had a strategy, this chapter will also help to provide evidence for future strategy considerations that General Motors should make based upon the demand estimates created by Polk forecasting.

Chapter 4: Empirical Chapter

The purpose of the chapter is to look at the empirical evidence establishing that General Motors does have a strategy. Proving that General Motors has a strategy would provide evidence against Michael Porter's argument that a firm has to be successful to have a strategy. General Motors' history would also disprove Michael Porter's argument that, because a unique activity separates your company from your competition, it is not possible to fail if you possess a unique activity.

As Michael Porter (1996) stated in his controversial article entitled "What is Strategy," a firm cannot succeed if it tries to use operational effectiveness as a business strategy. However, the problem with Michael Porter's definition, as it applies to General Motors, is that General Motors did operate with a distinct strategy that was different from its competitors. The problem for General Motors was that, even though it possessed one of Michael Porter's three generic strategies, the market changed over time, which caused its strategy to fail. This is key, because while Michael Porter (1996) states that companies should not have to change their strategies to adapt to market changes, Porter also recognizes that "new strategic positions often arise because of industry changes, and new entrants unencumbered by history often can exploit them more easily" (p. 78). The differentiation strategy for General Motors has been the core operating procedure since its inception by Alfred Sloan and was known as the "cradle-to-the-grave" strategy by the company (Wysner 1994).

In this chapter, I plan, by using financial and market data to show that General Motors possesses the "Five Major Elements of Strategy" introduced by Hambrick and Fredrickson, to show that General Motors has a strategy. The principal evidence I will be using to prove this theory will come from the financial statements and sales figures of General Motors' biggest

automobile competitors, showing how General Motors has compared in the past, present and will compare in the future. By establishing that General Motors has each of these five different elements, it can be argued that they possess a strategy and unique activities, thereby disproving Michael Porter's ideas of strategy.

General Motors' initial marketing campaign, "an automobile for every purse and purpose," succeeded in overcoming Ford's low-cost provider strategy, because General Motors' automobiles had become a consumer status symbol. As opposed to Ford, which offered only different forms of the Ford Model A, General Motors offered many different vehicles. The different brands of vehicles produced by General Motors, such as Cadillac, Chevrolet and Buick, allowed customers to choose their cars based on income and status. This concept was very different from Ford's, which only had available options for the Model A. By offering all of these different brands, General Motors was able to differentiate itself from its competition by using three of the five differentiators mentioned in the Hambrick and Fredrickson article. The differentiators that distinguish General Motors from its competition are the image of General Motors automobiles, the ability to customize its automobiles, the styling of the automobiles, as well as the advanced technology that the automaker has continually developed. The image of driving certain General Motors brands allowed the company to win the market share battle up until 2008, when Toyota outsold General Motors. The graphs in figure 1 show General Motors taking over from Ford as the market leader, its success through the 1990s, as well as the rise of the Japanese automakers in the 1970s and 1980s.

It is important to remember that General Motors was the market leader for seventy-seven (77), years from 1931 to 2008, which helped the company maintain its brand image, even despite its poor financial situation. The brand image can still be considered a major differentiator for

General Motors, because many consumers still look at General Motors' vehicles as the car they have always desired. The best example of this comes from the Cadillac brand which, as can be seen in the charts in figure 4, was the only brand produced by General Motors that saw an increase in demand from 2000 to 2008. General Motors' ability to build a luxury vehicle, for which consumers are still willing to pay a premium for, is a distinct advantage for General Motors and is important in the success of a brand such as Cadillac.

In more recent times, General Motors has lost its market share and its financial stability due to one of Porter's generic strategies, called the "focus" strategy. The focus strategy is based on the idea that a company will focus all its activities on one aspect of the business. The Japanese automobile companies decided to focus on quality and reliability. By focusing on these aspects, the Japanese manufacturers were able to get a head start on the competition during the market change in the automobile industry, which was switching from industry-driven to market-driven, due to new consumer tastes and the availability of information to consumers in the latter part of the 20th century. By focusing on market share, market demand, consumer preferences and changes in the market I will show why Porter's argument, about what constitutes a strategy, is not an effective way to operate a company. While Porter's arguments may provide a basis for how to categorize a company, it is important to realize that a company can have a strategy, but still be unable to succeed in the market, despite having unique activities and positions that other firms cannot duplicate, as is the case for General Motors.

General Motors was a successful company from its inception, until fairly recently, as can be seen in the table provided in figure 5, which shows the net income, net sales and total sales over the course of General Motors' history. Throughout its history, General Motors has been a very profitable company. From 1917 through 2004, General Motors experienced only one year

where it had a negative net income. Even during this one year, which was the recession of 1980, General Motors still led the automotive industry in market share by a significant margin, which can be seen in the graphs presented in figure 1 and by the production figures shown for General Motors. It was also, the market leader from 1931 to 2008, an impressive run for any company. General Motors' main goal was set by its creator, William Durant, who wanted to offer a distinctive automobile to each one of his customers. This goal would become a meticulously crafted strategy by Alfred Sloan, who would lead General Motors through its best years. If Michael Porter's claims about strategy were true, any firm that was operating with these key activities, which provided it with a market niche, would be successful, as was General Motors for over half a century.

The problems, however, that General Motors experienced were due, not to problems within their strategy, but rather changes in its market. According to Michael Porter (1996), "new strategic positions often arise because of industry changes, and new entrants unencumbered by history can exploit them more easily" (p.78). That is why even though, from the 1940s to the 1980s, General Motors controlled the automobile market, which is evidenced by the market share it obtained during that period, the new Japanese firms were able to start to gain a larger market share in the 1970s and 1980s. This can be seen in the market share graphs shown in figure 1. Market Share is the most critical measurement in the automobile industry, because it allows the company to rank itself against its competitors in the past. In the present, because automobile demand has been fluctuating, market share is used as a measure by companies to see how they are doing against each other; by showing what percent of the population is purchasing their automobiles as opposed to their competitors'.

In the 1940s, General Motors sold 43.6% of all automobiles in the United States, while

the other two remaining companies that comprised the big three sold a combined 42.3% (Car of the Century 2009). During this time, General Motors was still gaining customers, even during the war. The strategy of making the automobile a status symbol for different classes was working on the American public, who at this point in time favored the differentiation strategy employed by General Motors. General Motors responded for the next two decades by sticking to its strategy. This gave General Motors a 46.2% market share in the 1950s and a 48.3% share in the 1960s (Car of the Century 2009).

The "cradle-to-the-grave" strategy of selling different automobiles to different classes, or product differentiation, worked during this period just as Michael Porter described in his "What is Strategy." Michael Porter (1996) described strategy as "defining a company's position, making trade-offs, and forging fit among activities" (p. 77). Throughout its entire history, General Motors strategy has been known as "cradle-to-the-grave." Even with the recent decline of General Motors, if we follow Michael Porter's statement above, and Hambrick and Fredrickson's five elements of strategy, General Motors still has a strategy. At the start of this chapter, I noted four differentiators that General Motors would try to use to regain market share. The new General Motors is reinforcing its differentiators, by releasing new automobiles that have a technological advantage over its competitors, in hybrid technology, to separate itself from the market. The newest automobile in General Motors line-up, the Chevrolet Volt, brings to the industry the first automobile that can be powered only by electricity for up to 40 miles a day, without using any gasoline, which is a significant competitive technological advantage. The Volt, however, is not the only automobile that General Motors is producing in order to give itself a differentiator status. The new GMC Terrain is a Sport Utility Vehicle with an EPA estimated 32 miles per gallon on the highway, a significant differentiator in terms of gas mileage for an

automobile of its size (General Motors [GM] 2010a).

Also, the biggest key in General Motors strategy in succeeding once again, is the new cost structure formed by General Motors' bankruptcy filing. General Motors has cut its total number of employees to 68,500, down from 88,000 (Isidore 2009). The United Automobile Workers has also agreed to drop total labor cost to 54 dollars per hour, down from 73.26 per hour in 2006, as shown in figure 6 (Sherk 2008). This significant drop in total labor cost has enabled General Motors to reduce its debt to $17 billion in 2010 (Isidore 2009).

Problems arose in the 1970s due to different changes in the market. Part of the problem was the way that General Motors decided to reorganize their unique activities. This can be seen in the decline of the total sales, net income and net sales during the 1970s oil crisis, as shown in figure 5. Loss of market share is an indicator for problems or changes that have occurred. In the case of General Motors, fuel inefficiency, and safety and reliability concerns have been the main causes that led to the reduction of its market share. This was an error in the area of economic logic because General Motors possessed the technology to keep itself in the market leadership position. General Motors had the technology to differentiate itself in safety. General Motors was the first automotive company to install air bags on its vehicles, as well as the first company to install shatter-proof glass (GM 2010b). General Motors was also the first company to install emissions features such as catalytic converters. Innovations such as this led the way for the differentiation strategy used by General Motors; however its inability to properly leverage such features has been part of the reason for its demise. As opposed to those features, General Motors will be now able to sell the Chevrolet Volt at the premium price it wants, because it offers a feature that no other automotive company is able to match, which is one of the areas that Hambrick and Fredrickson find critical in their discussion of strategy.

In the 1970s, General Motors faced a complete market change in the automobile industry that affected its unique activities. The change of the automobile industry from being industry driven to market driven caused many problems for General Motors. General Motors sales were driven by people desiring the automobiles they were producing for the purpose of status, each brand represented an image. However, when there was a change to a market-driven automobile market in the 1970s, which focused on quality and customer satisfaction, General Motors was no longer able to get away with selling automobiles that were unreliable when compared to Toyota. The Japanese manufacturer focused its research and development on providing new technology for the development of gas efficiency, quality and reliability. As can be seen from Figure 2, all of Toyota's brands have a distinctive advantage in customer satisfaction when compared to General Motors, or any of its competitors.

The first-mover advantage Toyota has in perceived reliability has given it a significant advantage over the domestic automobile manufacturers, because it is now seen as its differentiator. Toyota has ranked higher than General Motors on the customer satisfaction index for the last 15 years. This includes the rankings for Lexus versus Cadillac, which are the two firm's luxury brands, and it includes the brands Toyota versus Chevrolet. The perceived reliability measurement gives the Toyota companies a significant advantage in selling automobiles because it takes into account one of the components that automobile owners want, which is reliability. Since the 1970s, this trend has continued for the Japanese automakers, with Toyota and Honda continually ranking numbers one and two in customer reliability, and with only one automobile from the two companies having a below average reliability rating from consumer reports in 2009. The first-mover advantage is very important because, even if General Motors manages to catch up to the Japanese automakers' reliability rankings, customers

associate reliability with Toyota and Honda. Thus, consumers will continue to purchase automobiles from these Japanese automakers, unless General Motors is able to pass Toyota and Honda in perceived reliability. More recently, there has been a major concern about the safety of Toyota's vehicles, with 4.2 million automobiles being recalled for problems with the gas pedal, which has led to more than 60 cases of runaway vehicles, the most tragic resulting in the death of four people (Healy and Carty 2010). As a result, Toyota sales have fallen and both Ford and General Motors have seen increase in automobiles sold versus this time last year.

Another factor that has played a huge role in the change of the market, which also had a relatively large effect on General Motors strategy, is the increased availability of information about the vehicles it was selling. The advancement of technology, legislation and customer awareness about General Motors automobiles became a huge problem when General Motors went head to head against its competitors. Using Ralph Nader's article, "Unsafe at Any Speed," *Consumer Reports* enlightened consumers on how unsafe certain automobiles, such as the Chevrolet Chevelle actually were. Further studies on automobile safety were conducted by companies such as *Consumer Reports* and *Edmunds*. This was the first case of consumer advocacy against the automobile companies and would become the grounds for quality and safety that Toyota and Honda would work to improve. Thus, the change in the marketplace had the biggest effect on General Motors' strategy. One, however, cannot say General Motors did not have a strategy. Like Ford in the 1920s, General Motors strategy was no longer a market leader because of changes in the market, not changes in the strategy.

Changes in the market have posed the biggest problem to General Motors, as it did back in the 1920s with Ford. Consumers' tastes changed and the qualities that people wanted changed. This can currently be seen in the automobile market with the decreasing number of automobiles

being sold worldwide. The effects of the recent recession show just the first part of the falling worldwide demand. According to a report written by Gunnar Gaedke, Ulrich Winzen and Thomas Mawick (2009), for the Polk Company, the leading research company in the automobile industry, demand has fallen to "55.2 million units in 2009, down 14.7 percent from 2008, despite tax and scrappage incentives introduced in many countries. As the impact of these initiatives subsides in 2010, global light vehicle volumes will decline slightly to 55.0 million" (p. 2). During the next two years, the automobile companies face serious problems because of the global recession. Furthermore, new automobiles also have a much longer life expectancy, and the demand for automobiles is not going to continue to increase, as it has in the past. The report created for Polk Company by Gaedke, Winzen and Mawick (2009) shows, in Figure 3, that the demand in saturated markets, including the United States, is not going to grow even after recovery from the current recession. In fact, the demand is set to stay right around 40 million automobiles until 2020 (p.3).

This presents an opportunity for General Motors, because it provides a chance to bring in new technology and a new cost structure, which will put it on the same level as its competitors. General Motors is entering new markets in the Asian-Pacific, Latin America and African regions. These developing areas are where General Motors has to focus to regain its share of the global market. The most important part of General Motors strategy will be to focus on keeping the prices of each brand from overlapping with each other. The idea of making the automobile a status symbol again can be extremely important in developing countries, which can be seen right now with the revitalization of Buick in foreign countries. General Motors decided to give up on Pontiac, instead of ridding itself of Buick, because of this fact.

There are also different factors that could have caused the potential shift in the demand

for automobiles. When General Motors was at its peak, in the 1940s, 1950s and 1960s, the average cost of an automobile was dramatically lower than it is today. The Federal Trade Commission (2006) lists the average cost of an automobile purchased in the United States in 2006 at $28,400. That price is a considerable amount of money, especially when compared to the median salary in the United States, which is $27,590.16. This means that the average cost of the automobile is greater than the median salary of an individual, which causes a considerable problem in the automobile market, because demand will slip when prices rise higher than income. Back in the 1940s, the average cost of an automobile was only $850, while the average salary was $1,725 (The People's History 2009). In the 1950s, the average cost of an automobile was $1,510, while the average salary of an individual was $3,210 (The People's History 2009). In the 1960s, the gap became even larger with the average cost of an automobile rising to $2,600, while the average salary rose to $5,315 (The People's History 2009). The change in the value of the automobile is one of the factors that led to the change in market demand. The more valuable the automobile became, the more important it became for the family to make an educated decision about which car to purchase. The average family could no longer afford to buy a new automobile every few years; instead it became a long-term asset that had to take into account many other variables, such as cost of replacement parts, cost of replacing the vehicle, dealer service, reliability, quality, appeal, and customer satisfaction. In the last thirty years, the market has changed to encompass all these variables and has become information driven; meaning the company with the most measurable attributes will be able to succeed in the new market.

One of the key variables that has also been of increasing importance for the United States is the rising price of gasoline and the effect it has on the automobile. An important model that was developed by Jacob Gramlich (2009) of Georgetown University shows the correlation

between the technology of new automobiles and quality in order to develop a way to determine how to meet the CAFÉ standards that were developed by the government. The CAFÉ standards are one portion of the Clean Air Act, which was originally developed in 1963 in order to reduce the amount of pollution in the air, mostly by major industrial companies. However, one of the goals of the CAFÉ standards is to reduce the amount of CO_2 emissions from automobiles, with the hope of reducing the emissions to zero as quickly as possible. The CAFÉ standards also serve as a way to increase the number of miles per gallon that a car has to achieve. The goal that President Obama has set is 35.5 miles per gallon by 2016; however, the companies benefit by quickly meeting the regulations set forth by the government (President Obama 2010). Jacob Gramlich's idea helps the automotive companies because there has been an increasing consumer concern for gasoline efficiency. It can also provide an impetus for the domestic automakers' use of technological advancements to provide better fuel efficiency for their vehicles. This concern may even force automobile manufacturers to move away from making large vehicles, or even making these larger vehicles more fuel efficient than they have been before, with the possibility of electric motors becoming more powerful than their gasoline powered brothers.

If General Motors refocuses its core strategy on the new market, it will be able to regain the market position that it has lost; however, some things that were components of the old strategy will have to change. The fourth element of Hambrick and Fredrickson's strategy, known as staging, is one of the areas that General Motors is beginning to change. One problem General Motors has is that it oversaturated the North American market and tried to produce more automobiles than consumers wanted. This was due to the company's overarching idea that the market is continuously growing. However, this idea needs to change, because with many consumers purchasing their first automobile in areas such as Latin America, Africa and Asia-

Pacific, expectations will be for a durable, reliable and high quality automobile, meaning that General Motors will need to invest more capital into the production of its automobiles internationally. General Motors sold 5.37 million of its total 8.35 million automobiles outside of the United States, showing just as Polk is predicting, that the North American market will not grow. Rather, companies need to focus on global automobile demand in order to be successful, which is how General Motors plans on regaining its market share from Toyota and Volkswagen (GM 2009).

Another key issue for General Motors is the entry of more competitors into the automobile market. It is no longer just the big three; the continuing expansion of both, low-cost providers, differentiators and even the rise of former sports automobile brands such as Bugatti and Audi provide General Motors with more competition than the market has ever seen. A problem that could cost General Motors in the race for these new markets is the decreased cash flow and the continual decreasing consumer confidence rating that occurred as a result of the chapter 11 bankruptcy filing that took place on June 1, 2009. The newest confidence ratings from Rasmussen (2009) reports shows that only 34% of the United States population is encouraged by General Motors recent activities, while 56% reacted unfavorably towards the company. This is down even further from both the pre-bankruptcy and post-bankruptcy numbers that General Motors posted, which were 42% favorable in May and 38% favorable in June (Rasmussen 2009). These numbers signal a decreasing belief that General Motors will come out of bankruptcy protection and be able to produce better automobiles. Because of this, General Motors will need to increase its Research and Development funding. The introduction of the Chevrolet Volt and Chevrolet Cruze will be important for the American market, but General Motors still has to prove that it will stick to producing these types of automobiles and not the large Sport Utility

Vehicles of the past that led to their demise when oil prices took a giant step upwards. These types of vehicles will be important because of the perceived image of domestic automobiles as followers instead of leaders of technology. The change in the perception of the domestic automobile industry is necessary to get more potential buyers in other countries, which can be seen through the projected automobile sales shown by the Polk Company.

Conclusion

The main problem with Michael Porter's competitive strategy theory is shown by looking at the automobile industry. Each of the major players within the automobile industry utilized one of the three strategies set forth by Michael Porter, which eventually led to market leadership, but then their subsequent demise. The empirical evidence, which shows the market share decline of General Motors, also shows the fall of Ford, who led the automobile industry through the 1920s with its low cost provider strategy, but was later outperformed by the diversification strategy employed by General Motors.

The automobile industry disputes, but also supports, Michael Porter's idea that strategy and resting on unique activities is nothing more than a suggestion on how to run a company, and not an actual procedure upon which to rely. Even though Michael Porter (1996) stated that a company should be able to withstand market changes because of the unique activities present within its strategy, he also stated in his article "What is Strategy" that "strategic positions often arise because of industry changes, and new entrants unencumbered by history often can exploit them more easily (p.78)." This quote is important because it shows how General Motors overtook Ford in the 1930s and why, when the market changed in the 1970s, Toyota was able to overtake General Motors in market share and profitability. Strategy is a very debatable subject and perhaps the best definition of strategy comes from the Hambrick and Fredrickson article entitled "Are you sure you have a strategy?" This article, already discussed in chapter two, describes the areas that a company must address in order to have a strategy.

As can be seen from the empirical chapter, it is clear that General Motors meets all of the five major strategy elements described by Hambrick and Fredrickson which brings to question Michael Porter's strategy theory. Michael Porter (1996) infers in his article that a company

cannot have a poor strategy but, rather, if a company has any strategy it will be successful. One of the key points to take away from this article is that "strategic positions often arise because of industry changes, and new entrants unencumbered by history often can exploit them more easily (p.78)." This viewpoint shows exactly what happened in the automobile industry.

General Motors success, in the mid-20th century, was because it had what Hambrick and Fredrickson called the "differentiators." General Motors' automobiles had appeal, were uniquely styled, its prices never overlapped within their brands and the automobiles served as status symbols. In the 1960's, all of the imports and smaller domestic automobile companies combined made up only 7.7% of automobile (Figure 1).

In the 1970s, a rush of new competitors entered the market due to concerns about safety, reliability and gasoline prices. Through the change of the automobile market, Toyota was able to exploit a new strategic position because it did not face General Motors high costs, or General Motors's reputation for producing inefficient, unsafe and unreliable automobiles. Toyota overtook General Motors in automobile production for two reasons. The first reason was that the change in the market played against General Motors strengths, which was General Motors production of automobiles that appealed to the eye, using style, price, image and customization as its keys for gaining market share, versus Toyota which relied upon their automobile's reputation for safety, durability and efficiency. The change in the market gave Toyota a new strategic position that General Motors could not exploit because of its history of producing inefficient, although fun to drive, automobiles. The second reason why Toyota overtook General Motors was based on cost. General Motors had given into the United Auto Workers' demands and hence faced higher labor costs than import automobile manufacturers.

These two reasons show a problem with Michael Porter's strategy theory, because

General Motors still possessed a unique position in the market, by offering automobiles with different performance features and still was producing larger numbers, which gave them scale advantages. The second problem with Michael Porter's idea of strategy is that it doesn't take into account the possibility that, even if a company has a unique position in the market, it can fail. The automobile industry is proof of this, because General Motors has always been the leader in two different categories of vehicles.

General Motors was a leader in the sale of larger vehicles, specializing in Sport Utility Vehicles, more commonly known as SUV's, as well as being a leader in the development of alternative fuel vehicles. The emphasis on larger vehicles was because it provided the Detroit automobile manufacturers significant profit margins, when compared to the smaller vehicles that were being developed in Japan. The Detroit manufacturers were able to charge a premium price on larger vehicles, because of the features that were offered, giving the companies a bigger profit margin. Also, General Motors led the major automobile manufacturers in terms of developing and producing the first alternative fuel vehicle, the EV1, which was produced and leased by the company from 1996 through 1999 (National Museum of American History 2010). General Motors still leads the way in the research and development of electric automobiles and is continuing to do so with the production of the Chevrolet Volt in late 2010, which is able to travel up to 40 miles without using any gasoline (Chevrolet 2010). These two different types of vehicles show the General Motors' market segment focus for the future.

Although General Motors has always been a market leader in terms of technology and core-technologies, until the recent reorganization that General Motors was forced into by the government, management decisions detracted from the company's strategy and created a blurred strategy vision. The one debatable element of General Motors strategy is what Hambrick and

Fredrickson call “staging.” The speed of General Motors expansion could potentially be one reason why the company is having its present problems. General Motors erred in assuming that the automobile market would continue expanding. However, when the market went into a recession, and the demand for automobiles declined, General Motors, because of its wrong assumptions, was forced into bankruptcy.

General Motors’ decision to mainly produce larger vehicles also deviated from the strategy of making an automobile “for every purse and purpose.” This ultimately led to it straying from what it did well, which was to produce automobiles that were better styled, customized and provided the owner a specific status. The hardest thing to determine about General Motors is whether its automobile market share loss from the 1970s to the present was a result of bad management decisions, or was a result of the declining public opinion and the ability of other new firms to get into the market because of their ability to enter a new strategic position that did not exist before the market change.

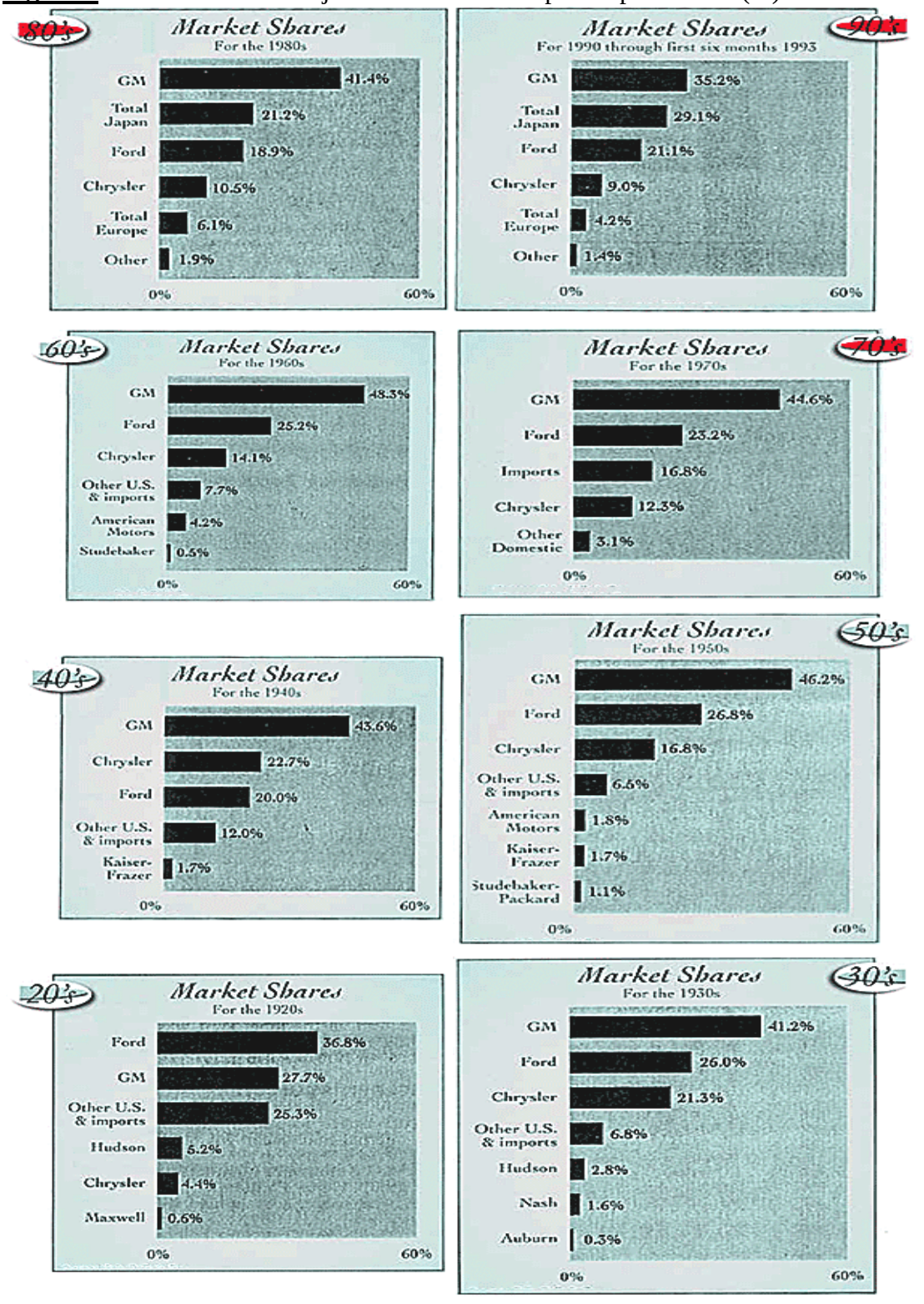
Since the reorganization of General Motors, which occurred because of the Chapter 11 bankruptcy filed on June 1, 2009, General Motors has managed to eliminate nearly all of the cost advantages of its foreign competitors and has refocused back to its original strategy, which is to build an automobile “for every purse and purpose.” This is shown by the production of the Chevrolet Volt and Chevrolet Cruse, as well as the switch from larger vehicle sales to production of smaller, more gas efficient, or hybrid automobiles. Even though General Motors has still been producing Sport Utility Vehicles, the utilization of flex-fuels enables some of these automobiles to reach over 20 miles per gallon.

For General Motors to regain its profitability, it will need to continue to produce new innovative vehicles like it did in the past with cars such as the Pontiac GTO and the Chevrolet

Corvette. General Motors' new cost structure will allow it to be competitive with foreign brands, which should increase its ability to produce automobiles that are reliable, while allowing the company to use its advantage in electric technology to provide automobiles that are more fuel efficient than any other automobile company. In order for the company to gain more consumers the perception of General Motors will have to change, which should be easier in the present day due to the present accolades that its products receive. Therefore, as long as General Motors can avoid any more managerial mistakes within its strategy, it can once again strengthen its "cradle-to-grave" strategy and, pushing its innovation and proprietary technology, regain its spot as the market leader.

Appendix A:

Figure 1-Market Share of Major Automobile Companies per decade (%)



Source: Car of the Century (2009)

Figure 2- Customer Reliability Scores for each Company

Customer Reliability Scores

	Baseline															Previous Year % Change	First Year % Change
		96	97	98	99	0	1	2	3	4	5	6	7	8	9		
Volvo (Ford)	82	84	84	81	80	82	81	82	81	80	81	NM	NM	NM	NM	N/A	N/A
Oldsmobile (GM)	83	82	82	82	81	80	81	82	80	80	NM	NM	NM	NM	NM	N/A	N/A
Lexus (Toyota)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	86	87	87	89	2.3	3.5
Cadillac (GM)	83	88	84	88	85	86	88	86	87	83	86	84	86	85	89	4.7	7.2
Buick (GM)	83	84	83	84	86	86	86	86	84	83	84	86	86	85	88	3.5	6
Lincoln Mercury (Ford)	79	80	81	83	82	85	82	84	81	86	83	83	86	83	88	6	11.4
Honda	85	83	82	81	83	82	83	82	82	85	86	86	84	86	88	2.3	3.5
BMW	82	81	80	86	86	84	86	86	85	84	86	85	86	87	87	0	6.1
Toyota (Toyota)	86	84	84	85	83	82	83	83	85	84	87	87	84	86	86	0	0
Volkswagen	74	76	79	78	82	83	81	82	76	80	78	78	80	81	86	6.2	16.2
Mercedes-Benz (Daimler)	85	87	87	86	86	87	86	83	83	80	80	82	83	82	86	4.9	1.2
Hyundai	68	69	68	72	68	76	81	78	81	81	84	84	83	83	85	2.4	25
Saturn (GM)	84	81	82	85	80	82	80	81	81	81	81	80	81	85	84	-1.2	0
Automobiles & Light Vehicles	79	79	79	79	78	80	80	80	80	79	80	81	82	82	84	2.4	6.3
Chrysler (Chrysler)	81	80	80	80	79	80	78	80	82	80	80	80	79	80	84	5	3.7
Chevrolet (GM)	77	79	78	79	76	80	78	78	79	77	78	81	82	79	83	5.1	7.8
Ford (Ford)	75	78	77	77	77	77	78	78	80	76	75	77	80	80	83	3.8	10.7
GMC (GM)	NM	NM	80	78	81	81	79	81	83	80	81	82	82	83	82	-1.2	2.5
Kia	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	77	78	80	81	1.3	5.2
Pontiac (GM)	76	78	78	76	78	78	78	78	76	79	80	79	80	80	81	1.3	6.6

Dodge (Chrysler)	80	77	77	78	75	81	77	78	78	75	78	78	80	78	81	3.8	1.3
Mazda	78	75	74	77	76	78	78	81	82	78	80	79	78	80	81	1.3	3.8
All Others	NM	79	73	74	76	75	79	77	75	78	76	78	80	82	80	-2.4	1.3
Jeep (Chrysler)	78	76	74	77	77	75	76	79	79	77	78	77	75	76	79	3.9	1.3
Nissan	83	80	79	77	79	78	80	80	79	81	78	82	80	82	78	-4.9	-6
Subaru	80	83	79	83	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	N/A	N/A

Source: The American Customer Satisfaction Index (2006)

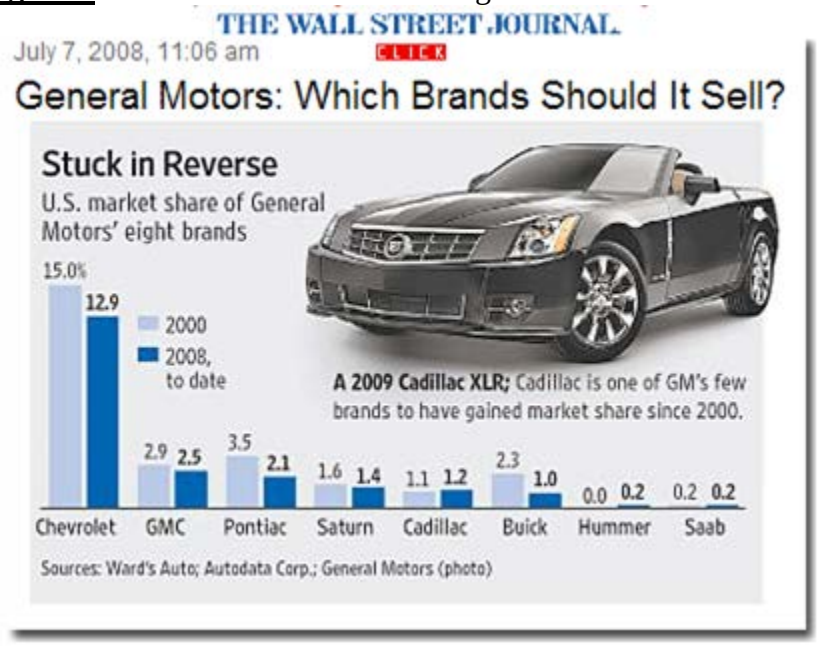
Figure 3-Projected Light Vehicle Sales in Saturated Markets

Red=North America (w/o Mexico)
Blue=Western Europe
Green=Japan



Source: Gaedke, Winzen & Mawick (2009)

Figure 4-Trends of General Motors Eight Brands



Source: Car of the Century (2009)

Figure 5-Table constructed showing some of the key measurements of General Motors, since its incorporation in 1917

General Motors Key Figures

Year Ended Dec. 31	Net Sales(In thousands of Dollars)	Net Income(In thousands of dollars)	Total Automobile Sales
1917	96,296.00	14,294.00	N/A
1918	269,797.00	14,826.00	N/A
1919	509,677.00	60,005.00	391,738
1920	567,321.00	37,750.00	393,075
1921	304,487.00	38,681.00	214,799
1922	463,707.00	54,474.00	456,763
1923	698,039.00	72,009.00	798,555
1924	568,007.00	51,623.00	587,341
1925	734,593.00	116,016.00	835,902
1926	1,058,153.00	186,231.00	1,234,850
1927	1,269,519.00	235,105.00	1,562,748
1928	1,459,763.00	276,468.00	1,810,806
1929	1,504,404.00	248,282.00	1,899,267

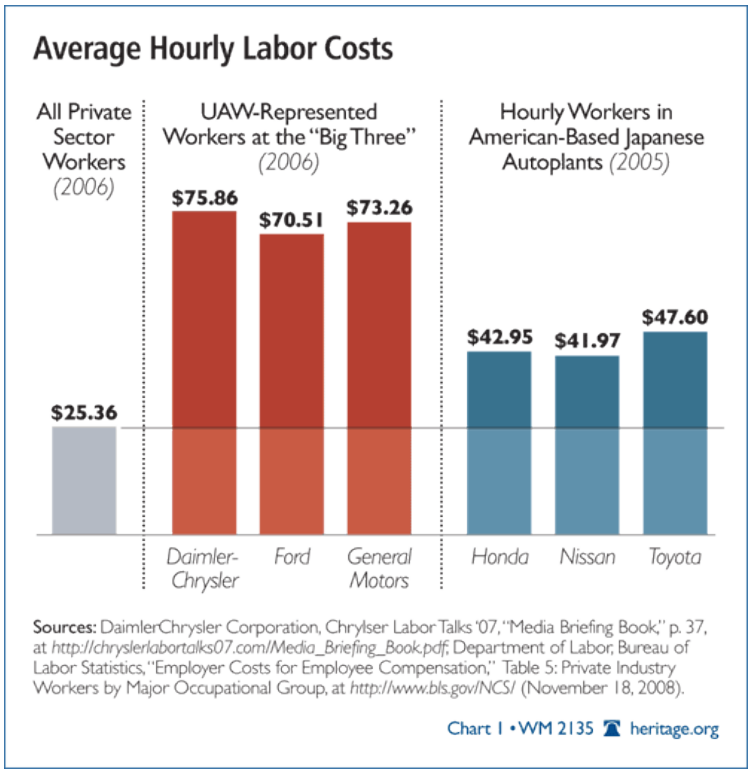
1930	983,375.00	151,099.00	1,174,115
1931	808,841.00	96,877.00	1,074,709
1932	432,312.00	165.00	562,970
1933	569,011.00	83,214.00	869,035
1934	862,673.00	94,769.00	1,240,447
1935	1,155,642.00	167,227.00	1,715,688
1936	1,439,289.00	238,482.00	2,037,690
1937	1,606,789.00	196,437.00	2,115,949
1938	1,066,973.00	102,190.00	1,308,643
1939	1,376,828.00	183,290.00	1,726,855
1940	1,794,937.00	195,622.00	2,080,566
1941	2,436,801.00	201,653.00	2,300,028
1942	2,250,549.00	163,652.00	348,806
1943	3,796,116.00	149,780.00	194,144
1944	4,262,249.00	170,996.00	317,032
1945	3,127,935.00	188,268.00	308,044
1946	1,962,502.00	87,526.00	1,229,034
1947	3,815,159.00	287,991.00	1,992,371
1948	4,701,770.00	440,448.00	2,220,993
1949	5,700,835.00	656,434.00	2,896,348
1950	7,531,087.00	834,044.00	3,992,298
1951	7,465,555.00	506,199.00	3,197,134
1952	7,549,154.00	558,721.00	2,629,200
1953	10,027,985.00	598,119.00	3,760,479
1954	9,823,526.00	805,974.00	3,799,628
1955	12,443,277.00	1,189,477.00	5,030,994
1956	10,796,443.00	847,396.00	4,090,863
1957	10,989,813.00	843,592.00	3,885,366
1958	9,521,966.00	633,628.00	3,310,493
1959	11,233,057.00	873,100.00	3,850,914
1960	12,735,999.00	959,042.00	4,660,996

1961	11,395,917.00	892,821.00	4,036,629
1962	14,460,241.00	1,459,077.00	5,238,601
1963	16,494,818.00	1,591,823.00	5,974,250
1964	16,997,044.00	1,734,782.00	6,114,478
1965	20,733,982.00	2,125,606.00	7,278,131
1966	20,208,505.00	1,793,392.00	6,717,338
1967	20,026,252.00	1,627,276.00	6,271,352
1968	22,755,403.00	1,731,915.00	7,086,914
1969	24,295,141.00	1,710,695.00	7,159,526
1970	18,752,354.00	609,087.00	5,308,493
1971	28,263,918.00	1,935,709.00	7,779,225
1972	30,435,231.00	2,162,807.00	7,790,525
1973	35,798,289.00	2,398,103.00	8,683,800
1974	31,549,546.00	950,069.00	6,690,230
1975	35,724,911.00	1,253,092.00	6,629,151
1976	47,180,972.00	2,902,804.00	8,568,000
1977	54,961,273.00	3,337,527.00	9,068,000
1978	63,221,065.00	3,508,022.00	9,482,000
1979	66,311,277.00	2,892,672.00	8,993,000
1980	57,728,515.00	(762,498.00)	7,101,000
1981	62,698,491.00	333,442.00	6,762,000
1982	60,025,589.00	962,711.00	6,244,000
1983	74,581,602.00	3,730,194.00	7,769,000
1984	83,889,900.00	4,516,500.00	8,256,352
1985	96,371,700.00	3,999,000.00	9,304,600
1986	102,813,700.00	2,944,700.00	8,575,866
1987	101,781,900.00	3,550,900.00	7,764,869
1988	110,228,500.00	4,632,100.00	8,107,528
1989	112,533,000.20	4,224,300.00	7,905,000
1990	110,797,000.30	(1,985,700.00)	7,451,000
1991	123,109,000.00	(4,453,000.00)	7,062,000

1992	132,243,000.00	(23,498,000.00)	7,183,000
1993	138,220,000.00	2,467,000.00	7,246,000
1994	154,952,000.00	4,900,000.00	7,480,000
1995	163,861,000.00	6,881,000.00	7,311,000
1996	158,015,000.00	4,963,000.00	7,208,800
1997	166,445,000.00	6,698,000.00	7,379,400
1998	154,018,000.00	2,956,000.00	7,582,000
1999	167,369,000.00	5,922,000.00	8,421,000
2000	184,632,018.00	4,342,000.00	8,133,375
2001	177,260,000.00	502,000.00	7,582,561
2002	186,763,000.00	1,689,000.00	8,325,835
2003	185,524,000.00	3,822,000.00	8,185,997
2004	193,517,000.00	2,805,000.00	8,066,536
2005	192,604,000.00	(10,567,000.00)	9,097,855
2006	207,349,000.00	(1,978,000.00)	8,965,305
2007	181,122,000.00	(38,732,000.00)	9,349,818
2008	148,979,000.00	(30,860,000.00)	8,282,803
2009	-	-	-

Source: Moody's (1977, 1979, 1981, 1983, 1985, 1987, 1989, 1991, 1997, 1999, 2001, and 2010)

Figure 6-Average Hourly Labor Cost of the Largest Companies in the Automotive Industry



Source: Sherk (2006)

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