

The Big Four: The New North American Industry Model

Automotive Design & Production / July-August 2009 / Melissa Anderson

In a recent conversation at our office, a representative from a Japanese trade association was musing on the changing shape of the North American auto industry. “At 20% market share, we became Public Enemy No. 1,” he said, of the New Domestic automakers and suppliers. “But when you hit 40% of the market, you become a big part of the industry. Are we not finally at a point where we could think in terms other than the Detroit 3 vs. the Japanese Big Three?” Going forward, he said, the NA market should be defined by new terms, such as the “Big Four” – GM, Toyota, Ford and Honda.

There is something to be said for taking advantage of the current “do-over” mode in the industry to adopt a new, more appropriate mental model. This would enable us to set aside the stereotypes perpetuated by the old view. Use of the term “Detroit Three” (itself an evolution from “Big Three”) has been shorthand for saying something like “the traditional US automakers that led the industry for decades but have been steadily declining in the face of competition from the Japanese.” Other inferences come to mind at the phrase, such as inconsistent quality, overcapacity, and bureaucracy. It might be useful at this juncture, though, to stop perpetuating a particular nationalistic distinction and look at the industry in terms of a set of market leaders and a set of smaller niche competitors.

As we speak of the new Big Four – GM, Toyota, Ford and Honda - this shorthand could connote a set of companies that have venerable names, long-running survival, large scale, and the resources to be long-term independent survivors. When we view these companies as worthy adversaries, we can start to expect, and get, healthy competition. In an environment of healthy competition, the automakers (and suppliers) serve a range of consumer priorities through sensible business practices. The participants avoid hypercompetition by seeking differentiation based on design, features, alternative powertrain approaches, etc., as opposed to engaging in a self-destructive race to the bottom by imitating each other and competing almost solely on price.

Is the new model valid? Are these the right companies to single out? Many adjustments are taking place in the industry right now, so we don't have the final answer yet. Challenges remain for all four of these companies at the moment (and we omit Chrysler for reasons that could fill another whole article):

- GM has to successfully apply the “less is more” model. By trimming the brands that add complexity but only 17% of current sales, by streamlining its distribution network, and after restructuring its balance sheet, the company has to prove that it correctly identified and corrected the sources of its lack of competitiveness.
- Toyota has slipped a bit from the pedestal where it has been placed in the US. The newly-tapped president Akio Toyoda took the company to task for drifting from its core values of thrift and efficiency, and observers note that its flexibility

has diminished as it added new US plants to capture more market share. After recording its first operating loss in 71 years, Toyota has to regroup.

- Ford took its bitter medicine early, mortgaging its assets and pursuing restructuring agreements to position itself for improvement without federal assistance. It has been the beneficiary of consumer flight from other less stable brands, but may ultimately suffer if its relative strength turns out to be temporary.
- Honda has been lucky as well as smart. Over the past twelve months, the smaller presence of trucks in its portfolio has been a blessing and it has shown the greatest flexibility in adjusting to the volatile US market.

What are the benefits of committing to a new mental model of the industry? For one thing, it will improve US consumers' perception of capability. They will have confidence that the industry knows what it is doing, a perception that is currently sorely lacking, for reasons that are justifiable (some automaker decisions) and some that are less so (e.g. the unrelentingly negative press). As we try to regain a vibrant consumer culture, it is important that people quickly return to respecting at least one automaker enough to purchase its products!

Assuming that the industry will feature a healthy set of major players also opens the way for improved performance of all companies. Our Japanese guest lamented the false picture that Japanese companies are inherently better than American ones. "We learned all this from you guys," he said. "Where did our teacher go?" The fact is that any company should be able to strive to be faster, better, and smarter every day, and that there are proven methods of operations improvement to get you there. As the surviving supply base is sorted out to serve the Big Four and the additional niche players, we can look forward to a more prosperous 2010. It just can't get here fast enough.

The New "Big Four" NA Automakers	2008 US Light Vehicle Sales	2008 NA Production
GM (including Buick, Cadillac, Chevrolet, GMC)	2,450,614	2,806,700
Toyota (Toyota, Lexus)	2,217,660	1,519,650
Ford (Ford, Lincoln, Mercury)	1,907,864	2,157,935
Honda (Honda, Acura)	1,428,765	1,421,438