

# Can Innovation can stop natural selection on the Czech car market

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**Czech carmakers have so far been among the sectors most affected by the economic crisis. With sales dropping by 12.3 percent only in January 2009, car producers had to cut deep in their costs and are now looking for more solutions to ensure their sustainability, but experts claim only real innovations can safeguard these businesses on a longer term.**

Total sales of new passenger cars in the Czech Republic fell by 12.3 percent on year to 8,842 units in January 2009, according to figures published by the Czech Car Importers Association (SDA). Even the sales of small cars such as the Škoda Fabia model plummeted by 37 percent compared with 2008 volumes, even though the model was the top-selling car in the Czech Republic at the beginning of this year.

Producing small cars that were still in demand—which has long been seen as a shelter from the current crisis by Toyota Peugeot Citroën Automobile Czech (TPCA) and Hyundai Motor Manufacturing Czech (HMMC), second and third largest Czech carmakers after Škoda Auto, respectively—isn't such a shelter anymore. Experts say these companies must come with real innovations if they want to survive and maintain competitiveness on the Czech and European markets.

"This might sound harsh, but the recent market crash has in fact made it even more important to focus on current challenges such as how to optimize lean processes, create innovation or hold onto and motivate talents," said Henrik Skov, a management consultant and co-founder of the Central European Center for Management Innovation (CECMI).

## Not just cut, cut and think

Skov argued that real innovation actually goes further than the cost-cutting measures now applied by domestic carmakers. "If the only point on the agenda becomes how to downsize and cut, it can have fatal consequences in the long run," he said. The message is not, however, that cutbacks can be avoided. "What is important is that downsizing does not cure the disease. The recipe is to downsize what needs to be downsized and then start the process of rebuilding."

However, these two measures can't be handled simultaneously. "Innovation and downsizing are a dangerous cocktail that can affect employees who are inspired to innovate," he said.

Jesper Vej, an associate professor at the Copenhagen Business School, told CBW that another important thing is where to downsize. "When cost reduction has priority, one of the first places executives look for savings is general and administrative expenses such as finance, marketing, information technology and human resources," he said, adding that this without a doubt eliminates some unnecessary expenses. Yet, it also often destroys value. "To get the figures right, managers may eliminate activities that really do drive sales and profits. Later, the company realizes it needs at least some of the services those teams were providing," Vej said.

## Product and sales innovation at Hyundai

Czech carmakers weren't fast to detail on the innovations they're already implementing or up to for CBW, due to confidentiality driven by competitive pressure. However, their answers pointed at product innovations, human

resources and financial innovations rather than process or structure managerial innovations.

For example, HMMC said that recently it came with a broader product portfolio to face the falling demand. HMMC public relations general manager Petr Vaněk said that currently his company is producing the Hyundai i30 hatchback and the i30 cw station wagon model that was supposed to be introduced into production later this spring. "Meanwhile, we are starting production of i30 cw at the end of February. The MPV, which was supposed to be produced in the fourth quarter of 2009, will be produced from summer or the third quarter, more precisely," he said. Moreover, the company extended its guarantee for cars from two to five years for cars sold after Jan. 1, 2009, and pushed for more discounted prices.

## Škoda bets on people

Volkswagen subsidiary Škoda Auto has just finalized a new salary deal with its staff and didn't hesitate to present its remuneration package as a human resource (HR) innovation.

In Škoda, from April 1, 2009, the existing tariff wage component will be increased by 3 percent and from Oct. 1, 2009, by another 1.8 percent. On top of that, for the period between January and March 2009 all tariff employees will be rewarded with a single payment in the amount of Kč 2,000 (€ 69), the company stated in a press release.

In 2007, Škoda Auto introduced a company bonus system that consists of a guaranteed and variable component and which is more closely linked to employees' performances, the company said. This guaranteed component also includes an end-of-year

bonus, which is going to be preserved in 2009 despite impacts from the financial crisis.

Concerning the crisis, the company also made some process innovations in its HR strategy. "To sustain maximal employment, we started the system of requalifications and rotations. Our employees in production have to rotate to another position according to the needs of the company. This is a way to avoid layoffs," said Radek Špicar, director of external affairs with Škoda Auto.

As for other innovations, Špicar said that at the end of 2008 his company speeded up the completion of its brand new technological center, which is the third-largest in the whole Volkswagen group. "We also decided to launch our new small ecological sports-utility vehicle (SUV) model Škoda Yeti earlier in order to offer our customers a broader spectrum of models," he said.

#### **Today, tomorrow, TPCA**

TPCA decided to implement the lessons learned from its mother company, the Japanese Toyota Motor Corporation, currently the largest global carmaker.

"In TPCA, innovation management is done by one of Toyota's production system pillars—continuous improvement or 'kaizen.' This is the reason why we cannot give you some concrete example related to the crisis," said Radek Křáava, a TPCA spokesman.

Kaizen, which in Japanese means improvement, is a Japanese philosophy that focuses on continuous improvement throughout all aspects of life. When applied to the workplace, kaizen activities continually improve all functions of a business, from manufacturing to management and from the CEO to the assembly line workers. Křáava said that kaizen—"or suggestions, as we called them"—are not just about the cost, but also about safety working place, environmental projects, quality, and so on. This

principle is aimed to ensure the company's long-term sustainability and competitiveness, he added.

Skov said that, indeed, Toyota is an example of innovation. The company managed to innovate through its lean manufacturing innovation, which brought it to its current first-place position worldwide. In the late '80s, U.S. automakers tried to copy Toyota's success, but couldn't make it. Skov said that it took U.S. automakers a long time to realize what was going on; when they finally did, they tried to imitate the production systems of Japanese auto manufacturers.

The imitation did not bring the expected success, and the lack of success was initially explained by the cultural differences between Japan and the United States, he said. For example, American carmaker General Motors Corporation came to the conclusion that profitable car manufacturing in the United States apparently was impossible, so they moved large parts of their production to Mexico. "What is interesting is that at the same time Toyota expanded their production in the United States and managed to establish successful production," he said, adding that this is just an example that innovation must come from within the company and not from pure imitation. "It is original innovation of management principles that reflects the specific context of a company that ensures a sustainable competitive advantage. What works in one context does not necessary work in another. In fact, it is a problem that there are way too many best practice junkies out there and too few management innovators," he said.

#### **Natural selection**

Experts say that to manage the crisis, Czech carmakers should cut to the core and rethink their own internal way of working and innovate on those principles. "Several studies show that this is an unexploited source to obtain sustainable competitive advantages," Skov argued.

Jesper Vej argued that a helpful tool for Czech auto managers would be to start working with scenarios. "[Oil company Royal Dutch] Shell is one of the most successful examples on the use of scenarios to explore the future. These scenarios are not mechanical forecasts. They recognize that people hold beliefs and make choices that can lead down different paths. They reveal different possible futures that are plausible and challenging, and link the uncertainties about the future to the decisions made today," he said.

The fact that Czech companies are already an integral part of the global economy means that they can't only rely on operation based on the moderate level of costs. "In the long run the financial crisis can prove to be an advantage for the Czech Republic," Skov said. "No doubt that the impact of the financial crisis will kill some companies in the short run and cause pain for most companies, but it is like the survival of the fittest. The dinosaurs that do not rethink management and are not flexible enough to maneuver in the current environment will be those who die. Those companies that are able to think differently and realize that they cannot just cut themselves out of the crisis will probably be the ones that survive," Skov concluded.