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**How to Create Competitive Advantage to
Survive and Thrive in the European Automotive
Capital Goods Industry.**



Abstract

The automotive capital goods industry in general and the market for semi- and fully automatic assembly machinery and equipment (M&E) in particular is a highly competitive business environment as the European automotive industry for passenger cars has matured and is in decline. This situation has led to intensified rivalry among suppliers and lower market potential that eventually caused prices to decline and profit margins to deteriorate. The purpose and objective of the master capstone project was to conceive an effective strategy and business model for incumbent firms, which allow them to defend or even increase their market share in the European market.

It was found that European suppliers of semi- and fully automatic assembly M&E are advised to (1) adopt a cost-focus strategy that is aimed at reducing the total cost of ownership for the respective car manufacturer by (2) targeting distinctive segments, i.e., niches in terms of M&E/car manufacturer combinations, where the respective firm can leverage its core competencies and strengths respectively. The underlying strategy to achieve lowest cost in a segment or niche respectively is based on the law of experience. This law states that the unit cost of value added to a standard product typically declines between 20% and 30% each time cumulative output doubles. Thus, repeat business is key to successful implementation of the cost-focused niche strategy, which is based on operational excellence that only can be achieved through accumulated output and experience. The main feature of the business model is (1) a low degree of vertical integration and (2) strategic alliances with value-adding suppliers. Such alliances enable the manufacturer of M&E to also reap the benefits of learning curve effects from a greater percentage of the value creation chain. These strategic alliances result in competitive advantage through lower cost as well as higher and consistent quality.