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STRATEGIC MISTAKES (AVOIDABLE): THE TOPICALITY OF MICHEL PORTER'S GENERIC STRATEGIES

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ABSTRACT

This article explores the topicality of Porter's generic strategies, assessing about their applicability on two specific automotive industry projects: The Smart and the New Beetle.

After performing a documentation analysis on these two projects, it was concluded that both of them may be considered avoidable strategic mistakes as they show the risks of higher differentiation that is not being paid by the customer, no matter how if it is about recognized brands or icon products. Hazards and risks, like big losses and negative margins, are applicable to every firm.

This is a qualitative investigation with a not experimental and transversal research design.

Keywords: Strategy; Generic; Mistake; Competitiveness; Value; Smart; New Beetle; Michel Porter's generic strategies; Competitive Advantage; Operational Effectiveness

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1. INTRODUCTION

Competitive Advantage (CA), strategy and Operational Effectiveness (OE) have been an academic and empirical discussion for years. Professor Michael Porter proposed fundamental management theories on these subjects and, during a long period, critics have been posed on his work. Mekic and Mekic (2014) suggest that:

- In accordance with Speed (1989), the Five Competitive Forces are arbitrary and there is not shown how to operationalize any analysis based on these forces.
- CA is best practices for a company (WELCH, 2005), but also CA can derive from external or internal forces like resources and environment, basis for CA, too (BARNEY, 1991).
- Operational Effectiveness (OE) refers to doing the same things in better ways than others do, not to strategy (BACHMANN, 2002). Strategy relates to combining activities; that is why managers may lose the whole picture of the company thinking on core competencies, critical resources and key success factors (KIPPENBERGER, 1997).
- Generic strategies (cost leadership, differentiation and focus) seem to be a parameter of choice for every firm; however, this choice is bounded by the size of the firm, industry and competitive analysis, and access to resources. As a result, small companies should only compete through focus strategy whereas bigger firms may choose cost leadership and differentiation (WRIGHT, 1987).

  In addition, Dawes (1996) suggests that the generic strategy schema do not fit with what happens in reality and that they are not a route to superior profitability. Datta (2009) argues that cost leadership theory rests well with a heavy initial investment in state-of-the-art equipment, which is impossible for small firms when they are not clear about its CA. The author insists that cost leadership needs a high market share, which is unachievable at the beginning of a business.
- Although not relying solely on Porter's work, it should be considered because it could be the basis when deciding on strategy and CA (RECKLIES, 2011).

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Moreover, that strategy, OE and generic strategies are relevant factors to understand and prevent from strategic mistakes that derive into losses and negative margins in every firm.

1.1. Objective of this investigation

To explore the topicality of Porter's generic strategies, assessing about their applicability on two specific automotive projects: the Smart and the New Beetle, proposing actions to improve strategic decisions and implementations.

1.2. Design: Methodology and analysis

This is a qualitative study, which explores and describes information of relevant authors and specialists gathered in the period Jul. 2016 - Nov. 2016.

The investigation design is not experimental and, among them, transversal as it is referred at a precise moment in time.

The analysis unit included the study of strategy, OE and generic strategies. Important secondary sources were used to complete this review.

This study was performed in Buenos Aires, Argentina.

1.3. Research limitations/clarifications

The information included in this analysis is the one that was judged to be needed in order to support -in a reasonable way- the basis of this investigation.

As this study is based on bibliographical review, it was not used an empirical analysis.

Conclusions are based on what is exposed in this study and -as a qualitative research-results shown cannot be generalized; however, they may be useful for management decisions.

1.4. Findings

A deeper understanding on strategy, CA, OE and generic strategies should be put in place in every organization, no matter its size and location. The specific organization and skills needed are directly connected with a proper implementation of that understanding.

There were taken two projects as examples: the Smart and the New Beetle, which are shown as avoidable strategic mistakes due to a higher differentiation that was applied to these products and it, finally, was not paid by the customer.

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Recognized brand or icon products do not guarantee success in the business arena; big losses and negative margins are applicable to every company.

Leadership is about strategy and management is about OE. In order to have sustainable growth, the leader's job refers to:

- Focus on their present and future industries and select the right one/s to compete.
- Establish an adequate set of distinctive activities.
- Develop the next practices needed to go forward.
- Be open and flexible, and look for nonconformity, uncharted territories, development through learning, helping others, inclusion, transparency, and loyalty.

1.5. Originality and value

As, success stories abound in business literature, it is hard to find mistakes because they are not easily recognized and sometimes hidden. However, it is demonstrated that admitting a mistake is better when somebody wants to learn.

As a result, this study may help executives and entrepreneurs when taking important strategic decisions in their companies.

2. THE IMPORTANCE OF STRATEGY AND OPERATIONAL EXCELLENCE (OE)

Strategy, organization and performance are key issues while considering company results. White (1986) states that:

- It is needed a fit between the internal organization and the strategy of a firm. An inappropriate internal organization may cause to perform less than full potential.
- There is a distinction between corporate strategy (where to compete, in which industries and geographic areas) and business strategy (how to compete within a given industry). Nevertheless, at business or corporate levels, the strategy-organization-performance problematic exists.
- In multi-business companies, business unit strategy can be influenced by key personnel choice, and by the internal and external business unit organization.

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- Cost strategies efforts are directed to reducing costs. That´s the reason why, they are connected to concepts like higher ROI while giving lower autonomy and higher responsibilities sharing.
- Differentiation efforts are directed to creating perceived uniqueness amongst customers. In this case, strategy requires of strong functional coordination unified under the business unit manager.

In addition, Porter (1996) states that:

- Flexibility, outsourcing, benchmarking/best practices and positioning are not differentiators anymore. Copying others is a path to “mutually destructive competition” and to temporary CA.
- Sustainable profitability is almost impossible, as there is confusion between operational effectiveness and strategy. Tools and techniques like change management, outsourcing, total quality management and the like are helping operational improvements, but not sustainable profitability.
- Superior performance needs from Operational Effectiveness (OE) and strategy, but they work differently. Outperforming rivals implies to charge greater prices and to have greater efficiencies through lowering unit average costs. As there are many activities required to carry out the different tasks that are needed in a company (sell, produce, create products, and distribute, for example), costs advantages come from being more efficient than competitors are and differentiation arises from the choice of activities and how they are performed. As a result, “activities are the basic units of competitive advantage”. OE is doing better than rivals, it is about inputs and outputs, and efficiency is its key word; it is about moving the productivity frontier (new ways of managing, capital investment or new personnel). On the contrary, strategic positioning means doing different activities than rivals or in different ways.
- Constant improvement on OE is necessary but not enough when considering extended period; best practices imitation is its worst enemy as generic solutions diffuse the fastest and managers let OE supplant strategy. The result is a pressure on costs and prices, compromising long term sustainability. In other terms, homogeneity and imitation are the basis of

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diminishing returns for incumbents, and managers are supplanting strategy by OE, which is the basis of performance.

- On the other hand, competitive strategy is about being different, choosing a different set of activities than competitors. In this way, the essence of strategy is in the activities that are chosen. As a result, strategy is “the creation of a unique and valuable position, involving a different set of activities” (p. 68) to be chosen, and it is needed a trade-off among them. Activities cannot be separated from the whole and position comes from positions built on systems of activities. That is why, trade-offs are the essence of strategy and imply choosing what not to do.
- While OE is about achieving excellence in individual activities, strategy is connected with combining those activities. Organizational structure, processes and systems must be strategy-specific as strategy is seen as an activity system. As a consequence, cost-cutting and restructuring are not strategies, are distractions to growth.
- Leadership is not about orchestrating operational improvements and making deals. The core of a general management position is strategy; it is about defining a unique position, making trade-offs and fit among activities; it is about deciding what to do and what not to do.
- OE improvement is part of management job, but it is not strategy. It is connected with best practices and continual improvement.
- Finally, OE and strategy are part of two different agendas.

Out from what it was said, to turn firms into leaders is more than benchmarking other companies. Prahalad (2010) is convinced that benchmarking has a role in leadership catching up with competitors but it does not turn companies into leaders. It is needed to spot big opportunities and next practices in order to become winners.

He understands that next practices (not best practices) are about imagining the future as Apple’s Steve Jobs and Tata Motors’s Ratan Tata do/did. So, to identify the big opportunities that may arise he proposes questions, as:

- Is the problem widely recognized and affects other industries?

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- Does it need radical innovations and can change the industry economics?
- Tackling this issue, will give a fresh competitive advantage and will create a big opportunity?

He proposes that inclusive development is an example as smart companies had come up with low priced products as a $ 2,000 car, a $ 100 laptop, a $ 30 cataract surgery procedure and $ 0,002 cell phone call per minute. In fact, for 2015 he predicted that 5 billion people all over the world would be using cell phones. Consequently, giants like Unilever and P&G think that -for 2020- 50% of their worldwide revenues will come from poor people in the developing world.

Additionally, due to the connection between inclusive development and sustainability, (more than 4 billion micro consumers and micro producers will place an unsustainable stress on the earth in the future), sustainability is another big challenge.

Prahalad (2010) cites that Drucker once said that opportunities are “visible, but not seen”. That is why inclusive development is seen as a Corporate Social Responsibility (CSR) not as a path to growth. He ends up saying that sustainability is not a problem but an opportunity to innovate. Imagination is the principal constraint to discovering mega-.opportunities, not resources.

Likewise, Prahalad (2010) remarks important characteristics of managerial responsibilities, as follows:

- Nonconformity and the value to entering into uncharted territories.
- Displaying a commitment to learning and developing yourself in order to help others.
- Help others displaying their full potential investing on them.
- Good leaders are inclusive, so relate with the unfortunate.
- Develop fair and transparent processes and take a look at how results are achieved. You will be judged by what you do and how well you do it, not for what you said you wanted to do.
- Remark loyalty to the organization, profession, community, society and family, as anything can be achieved without family’s support.

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- Leadership is about self-awareness, modesty, humility and humanity it is requested to be aware of the poor and disabled, accepting human weaknesses.

Big opportunities are about to come and leaders must set the right strategy and organization to transform them into sustainable and inclusive growth. OE is a need, but not all what is needed. To select the right industry to compete, the right set of activity system and the right next practices are a must. Openness and flexibility are an imperative for growth.

In the following Table 1 it is shown a summary of what it was said in this section:

Table 1: Strategy and Operational Excellence

• Full potential of a firm comes from a proper fit between the internal organization and the strategy.
• It must be distinguished between corporate strategy and business strategy.
• Cost strategies are related to costs reductions, ROI and efficiencies. Differentiation strategies to build a perceived uniqueness among customers.
• Strategy is a path to sustainable profitability, not OE. It is about doing different activities or in different ways. • OE is about inputs and outputs, and doing better than competitors. It is needed for superior performance.
• Activities are the basis for competitive advantage. And differentiation arises from choosing them and how they are performed.
• Leadership is about strategy, spotting new opportunities and next practices. Its key concepts are: defining a unique position, making trade-offs and fit among activities, and decide what to do and what not to do. • Management is about OE.
• Inclusive development should be seen as a path to growth, not as a CSR. As big firms are predicting for next years huge percentages of revenues coming from poor people, it should be seen as a big opportunity example to chase.
• Key words for business people: nonconformity, uncharted territories, learning, development, help others, inclusion, fairness, transparency, loyalty, new leadership.

3. UNDERSTANDING GENERIC STRATEGIES

It is hard to win playing the same game others do. That is why the competitive arena is about playing a different game that the leader plays as the leader is who designed the rules and have the resources to defend them.

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Throughout history, in different markets and industrial sectors, there were companies that changed the rules and have control in their industries, others who influence and others that neither one nor the other. The difference among them is to have a clear strategy and to change the rules of the game[1].

Moreover, to think about competitive strategy is to work on what the company should seem in the future, and to think that operational strategy is emphasize operational efficiency and effectiveness. Both are needed, but OE is not enough to sustainable growth as it was said before.

In this sense, Porter (2008) proposes three generic strategies:

- ***Cost leadership (no frills)***: it relates to gaining CA through lowest costs of production, removing costs from every link of the value chain. The product can be priced at a competitive parity and profit per product is lower if it is compared with differentiation generic strategy. That is the reason why it requires high market share in order to achieve revenue targets.

  Key concepts under this strategy are: scale (big volume and efficient capacity utilization), cost reduction/minimization, integration, quick learning and control. There is a point in which it must be done a differentiation sacrifice and no more features must be added to the product/service.

  The risks that may be faced are: being trapped on high investments, to ignore differentiation basis and/or to be exposed a cost reductions that are implementable by other competitors. As an example, General Motors and Wal-Mart are firms that target price-sensible customers.

  To be successful with this generic strategy it is needed to have access to technologies that will bring costs down, to be very efficient in logistic and/or consistently be in the position to cut costs below those of other competitors.

- ***Differentiation (creating uniquely desirable products and services)***: it relates to the creation of differentiated/more attractive products for different segments, charging customers with premium prices. Profit per product is

[1] In this sense, Harvard Professor Clayton Christensen developed the disruptive innovation theory which states that new entrants may put out of play industry's incumbents. But this subject is not going to be analyzed as it exceeds the scope of this investigation. For more information, see Christensen's book: The Innovator's Dilemma (1997), Harvard Business School Publishing, USA: Boston.

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higher in comparison to cost leadership generic strategy, but market share is smaller. This generic strategy includes quality and certainly is costly. How to do this depends on industry characteristics but it may include: features, durability, functionality, brand image, support, and the like.

Key concepts under this strategy are: to be unique, brand loyalty, less price sensibility and exclusivity.

Its risks imply high cost of differentiation, no need for differentiation and imitative products. Examples: Mercedes Benz, Audi or BMW.

To be successful with this generic strategy implies to nurture R&D, innovation, ability to deliver high-quality products/services, and to build an effective sales and marketing to make the market understand the benefits offered.

- ***Focus or niche segment (offering a specialized service in a niche market)***: it is related to focusing on a narrow and defined market segment. It means that it will be developed a uniquely low cost or well-specified product/service, generally with a strong brand loyalty among their customers. After deciding a focus strategy, it is requested to decide if it is going to be pursued cost leadership or differentiation, as focus in not normally enough on its own. It is necessary to offer something extra in the selected niche. Porsche is a case: their customers appreciate the CA created especially for that niche.

  Risks are connected with situations like the niche may not grow or disappear.

  As it was mentioned above and considering that focus or niche segment generic strategy is finally a differentiation or cost strategy for a specific segment, for the purpose of this study it will be generalized that there are two generic strategies: cost leadership and differentiation.

In addition, Porter (2008) suggests that:

- It is not convenient to be positioned in the middle of these generic strategies as the company: a) doesn’t achieve any generic strategy, having difficulties to generate profits, and b) there is uncertainty and lack of clarity. A clear example is the automotive company Fiat/Chrysler; historically, both firms had problems delivering positive results.

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- It is not possible to choose both strategies at a time as cost leaderships needs an internal focus on processes and differentiation an outward highly creative approach. In order to choose wisely a generic strategy it is essential to consider organization's competencies, strengths and weaknesses, as per the following steps:

    1- SWOT analysis, to understand where success and risks are.

    2- Five competitive forces analysis, to know the nature of the industry you are in.

    3- Compare 1 and 2, and ask yourself if it could be reduced or managed the supplier and customer power, and the threat of substitution or new entry, and finally if it could be built an uncontested place in the market.

    4- Generic strategy selection will give you the best and strongest set of options.

It is essential to take into consideration that, when selecting a generic strategy, it will be very difficult to change it in the near future as it implies a whole organizational context to be developed (abilities and skills, among others).

Complementing what Porter says, Dess and Davis (1984) demonstrates the "viability and usefulness of categorizing firms within an industry into strategic groups on the basis of their intended strategies" or Porter's generic strategies. They suggest that:

- Strategies differ among firms and better strategies make a difference in performance results.
- There are groups of firms in the same industry with similar strategies, like home appliances, chemical process and consumer goods which differ along dimensions rather than size and market share.
- Each generic strategy represents a group of strategy groups in which a firm may want to compete in. To be "stuck in the middle" implies low profitability as the firm will not take advantage of any generic strategy. As a consequence, these three groups (two, as per our purpose) serve to explain profitability and performance of firms within an industry.

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Finally, Porter indicates that each generic strategy is connected with different organizational skills, and strategy influences any industrial sector.

The following Table 2 shows the basic elements of generic strategies suggested before:

Table 2: Generic strategies

	Cost Leadership	**Differentiation**
It is about	Lower production costs–No frills. Making differentiation sacrifices.	Differentiated/more attractive products creation. Includes quality and is costly.
Price	Competitive parity	Premium
Profit per product	Less	Higher
Market share	High	Small
Key concepts	Scale. Cost reduction/minimization. Integration. Quick learning. Control.	To be unique. Brand loyalty. Less price sensibility. Exclusivity.
Risks	High investments. Ignore differentiation basis. Imitable cost reductions.	High cost of differentiation. No need for differentiation. Imitative products.
Company emphasis / skills and abilities	Efficiency and effectiveness	R&D and innovation.
Examples	General Motors / Wal-Mart.	Mercedes Benz, Audi or BMW.
To be successful means	Access to technologies that will bring costs down. Cost and logistic efficiencies.	R&D focus + Innovation. Ability to deliver high-quality products/services. To build an effective sales and marketing.

As it was shown in this section, to have a solid strategic view it is needed to understand the basic principles of Porter’s generic strategies, its benefits and how it should be selected.

A generic strategy influences present and future performance of a firm and impacts on the industrial sector in which competes.

To decide one of these generic strategies implies a specific set of skills and abilities to be developed, and a specific organization to be put in place.

A middle position involves harsh risks like low profitability, uncertainty and lack of clarity. There is not a company in the world which can stand them.

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4. THE SMART PROJECT

At the beginning, every project is a big interrogation mark and the Smart was not an exception. The initial ideas of Daimler Chrysler's (DC)[2] executives were not met on this project, and they collided with what experts of the industry said. Let's review some of the positive and negative opinions that were found in our investigation.

"Positive" opinions

There are not a lot of specialists who have positive opinions on the Smart, although there were found positive points of view but with some reservations. For instance, Keuning (2007) states that:

- Smart is a kind of a revolution with a lot of skepticism around, and the breakeven may come in many years. It was launched in Oct., 1998 with an initial hope of 120,000 units to be sold in the first year but rapidly revised to 80,000 units. In the half-year to June 2000, 54,000 cars were sold but the first estimate of 3 to 4 years of breakeven is history.
- The initial argument to launch this project was that it would bring down the fuel consumption figures for Daimler helping the giant S-class to be on the road and not cannibalizing actual products.
- Wealthy families would use two cars: an S-class for longer trips and a Smart to get into the city. As a consequence, two Daimler cars would be bought by the same family.
- There were two inconveniences:

1. The elk test for A-class retarded the development of the Smart, increasing costs further.
2. Over-emphasis on fun: targeting young people and offering crazy colors. In addition, it was marketed like a toy, not being taken seriously. That is why it took more than a year to become acceptable for the streets of Munich and Berlin.

[2] At the moment the Smart was launched (1998), Chrysler was part of Daimler-Benz. From 2014 on, Chrysler is controlled by Fiat S. p. A. after their merger. The new holding is Fiat Chyster Automobiles (FCA) with headquarters in London.

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- This car is successful in cities like Rome (as Italians are used to small cars) and countries like Switzerland (for its link with Swatch Group, as Nicholas Hayek, its chairman, who in the early 1990s joined Daimler with the idea of bringing a watch manufacturer to the car industry).

Negative opinions

Negative opinions are found not only from specialists but from the executives of DC. The article "Smart is a disaster – Mercedes boss" (2005) states that E. Cordes, the Head of the Mercedes Car Group, described that the Smart brand was a "disaster" but still has a future. Targets were not met and Cordes predicts that it would break even in 2007. Although Chief Executive J. Schrempp ruled it out to closure, he is convinced that "adds sympathy to the Group and helps to achieve voluntary emission targets".

Additionally, Flint (2005) says that Smart had no sense from day one as they forgot what a car is about. He suggests that every auto company (like Toyota, Honda, BMW and Porsche) makes mistakes and that some cars make no sense. For instance: the 1997 GM's electric car (two-seater with 40 to 80 miles of autonomy), the 2002 Ford Blackwood (a pick-up that couldn't pick up anything and lacked four-wheel drive). He insists that a car is valuable because of its versatility: carries a lot for huge distances in every condition, if not it doesn't sell.

His personal view is that, as Smart is a partnership with Swatch watch (Switzerland) and Volkswagen rejected the project, it has different mistakes:

- A car is not conceived to be parked in crowded cities, it is bought for mobility. Parking is not a reason for existence.
- It is only for two people, and a couple cannot carry a baby or a friend. Lienert (2005) adds that smaller cars in America are not welcome as they are full of capacity and parking is easy, unless someone lives in New York or San Francisco. In addition, they are small for a medium American person and for American roads.
- The fuel-stingy engine makes it slow not making it friendly-driven in any distance. The American traffic is not for this car.

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- The car body could be taken apart to match it with a dress, but nobody would do that in his/her right mind.
- Smart needed to sell 200,000 units a year to breakeven but, at the most, they have not surpassed 100,000 a year.
- In the first four years, the Smart lost $3 billion, which are compromising DaimlerChrysler results as, in accordance with Lienert (2005), needs resources to fix premium cars.
- For the price of the Smart, Europeans could buy a more competent car like VW Polo with four seats and can go anywhere.

To add some more information to what Flint says on more competent cars found in different markets, it was made a price comparison in USA and Argentina on different models and brands which suggests that, in both countries, more comfortable/competent cars could be bought for what a Smart is priced. In addition, in USA the Smart is priced between $15,000 and $21,000[3], and in Argentina prices varies from $22,300 to $26,400[4].In addition, Davies (2013) says that he has a lot of fun zipping around Manhattan and Brooklyn but he will not buy one. He points out some positive points in its favor: it is targeted for people who are prone to new and interesting designs (ex.: Millenials, environmentalists, and city dwellers) and it is built for urban driving with great visibility. Parking and driving it is an excellent experience. However, also, he points out the negative: the automated manual transmission which offers a "jerky shifting of a poorly driven manual" and that being knocked by the wind it offers an unpleasant sensation.

Finally, Flint argues that quitting would be admitting a mistake, and executives hate to do that. In addition, the plant was built in France as a symbol of German-French cooperation, and dismissing French people would be politically embarrassing. DC leaders forgot that a car is much more than parking and cute as they must be able to do more things of what they are supposed to do.

[3] From http://www.autoguide.com/new-cars/smart/, and http://www.thecarconnection.com/quickquotes/smart_fortwo_2016?wide, retrieved 11/23/2016.
[4] From http://autoblog.com.ar/2016/01/12/lanzamiento-smart-fortwo-y-forfour-2016/, retrieved 11/23/2016.

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The impacts of this project

Chronic losses, additional costs incurred and negative margins are the fundamental impacts of this project. In addition, some Institutions and specialists are recommending closing this project.

In addition, different specialists are against the way this project has been carried on and advert that what is being done is not enough, as follows:

- The "Smart division has been a chronic loss maker since its birth in 1998 and promises of break-even have never been fulfilled".

  With 2004 financial results, DC disclosed a 500 million Euros loss in the year. Morgan Stanley investment bank estimates that each unit sold gives DC 4,000 Euros loss and a 35% of negative margin.

  In addition, the ForFour and the ForMore had been the source of many problems for the brand, and Smart is a huge problem DC has to deal with. Dismissing people is not enough, plants should be closed (WINTON, 2015).

- Tran (2005) insists that DC would spend €1.2bn on Smart revamp after years of losses with this brand. The large costs of this project were impacting the firm's earnings forecast for 2005 and obliged to recall 1.3 million Mercedes-Benz vehicles worldwide. Significant earnings increase for 2007 (€600 million), reductions in the workforce and to discontinue production of its roadster and SmartSUV were planned in order to restructure the Smart business model. Credit Suisse First Boston was skeptical on these moves as the announcement on Smart is not aggressive enough to deal with DC problems.

  Moreover, Morgan Stanley bank advises that it is necessary to close this project. The article "Mercedes advised to close Smart" states that this bank urged DC to dump the £1.9bn cost incurred in closing Smart following BMW, whose share price went up after it jettisoned Rover in 2000. E. Cordes, Mercedes Benz boss, said that they "will present Smart anew".

  Because of this section, Smart was not conceived for what a car is about to be: versatility and friendly driven for long-distances. More competent cars are

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offered in the market and may be that is the reason why break even hasn't come yet. In other words, it was followed a differentiation strategy and positioned in a higher target market for a car that is not price competitive for what it is. As huge losses and negative margins are the fundamental impacts seen, the peril of this project is that it may compromise Daimler as a whole.

5. THE NEW BEETLE PROJECT

Sass (2013) and other publications[5] say that the old Beetle was born in 1930s. It is a record with +21 million produced and bestselling car of the 1950 decade with 40% market share, remaining unchanged during 58 years and in production for 65 years (1938 to 2003).

Dhabhar (2016) remembers that the Beetle was created by Ferdinand Porsche during Hitler's period with a subsidized plan (SASS, 2013), and was called the "People's car", helping a lot to motor the world.

McGinn (1998) suggests that it is not an easy job to create a modern version of a fable. After nineteen years that VW took the old Bug off the market in USA, it remained as the bestselling car in history and an icon for collectors. The author insists, "For a car designer, this was the equivalent of repainting the Mona Lisa". Five years were needed to be designed, having 80% of its parts in common with VW´s Golf. It is stated that for elder people it can stir up emotions but after the design work, sales must happen.

Out of the study of different authors Dhabhar (2016), Sass (2013) and Lal (2005) it is possible to have an additional understanding on specific issues of both cars, the classic and the new Beetle:

- In the 1950s, the Beetle was a success in India but in 2008 with an "exorbitant price tag", it had few buyers. Its price is "absolutely ridiculous" and its price point is "absolutely far from the people's car". It is more a "fashion accessory" than a "mode of transport". The original Beetle was inexpensive, but never cheap.

[5] 20 facts about the VW Beetle, from http://www.thefactsite.com/2016/07/volkswagen-beetle-facts.html, retrieved 11/21/2016.

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- Its shape and low price rapidly attracted new generations of Americans. For many, it was their first car. A memorable advertising said it all: “Buy low. Sell high”. By 1970, the Beetle’s sales peaked at +400,000 units and it became an American icon.

- In the period 1970-1993, the New Beetle sales declined from 500,000 units to 50,000 in USA. However, in the period 1993-1997 sales rebounded to an annual 29% growth thanks to targeting a younger new generation.

- The appreciation of the Deutsche mark against the dollar (1970s), the drop in oil prices (1982) and the declining popularity of hatchbacks contributed to the declining in its sales. In 1979, VW was impeded to comply with environmental legislation stopping selling cars in USA. Finally, and with a huge Japanese competition, in mid-1980s and for the first time since 1958, VW sales were dip below 100,000 units.

- More than 10 years after the last Beetle was sold in USA, VW designers begun to design a New Beetle, based in four concepts: honest, simple, reliable, and original, with up-to-date German engineering and superior driving performance. By 1993, the concept car was finished and presented in the 1994 Auto Show in Detroit.

- The first step was the design process and the second one was directed to define the target market. In order to comply with this task, they begun to talk with potential customers, knowing that most of the old ones had personal histories, memories, and affection with the old Beetle, but the new ones had no emotional connection with the car. As a result, it was thought for the small-car segment, changing its positioning behind drivability. Its price range was $17,000-$18,000, more than the average price of competitors ($15,200).

- It was very important to assess the right selling proposition. That is why it was needed to position The Beetle into the right segment and not as “a toy” but as a “real, drivable car”.

- In 1994, VW prepared a relaunch in the USA market trying to modify the perception of poor quality and reliability of its products. In 1995 and 1996 and thanks to a new ad campaign, sales increased in each year 29% and by 1997, sales increased 178% in comparison to 1993 sales.

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- Jim Mateja (Chicago Tribune of 02/13/1994) said that VW must came up with a new, small and inexpensive car as the old Beetle, giving the opportunity to have what many people couldn't. However, the New Beetle -made on the VW Golf platform- was larger, more spacious, had a better engine and nice shape, and offered front and side airbags.

- Although the Classic Beetle has the outright charm to call the attention of any and every person, the New Beetle is prettier, larger and more comfortable, and incorporated the Porsche inspired spoiler. Both cars are solid and of good quality.

Both cars are shown in the following image:

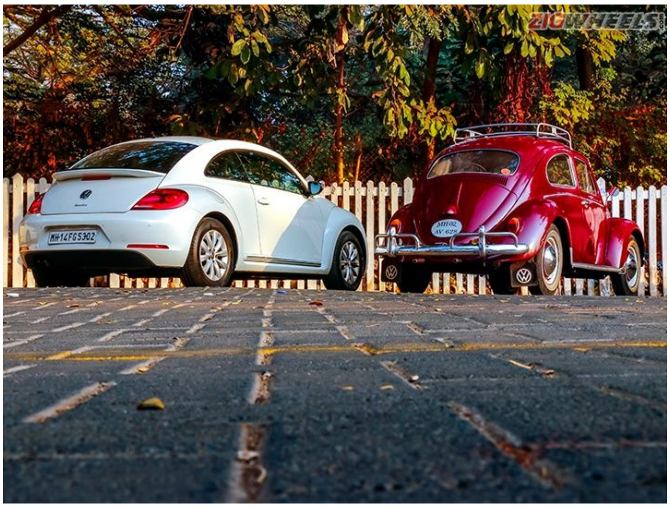

Figure 1: The Classic and the New Beetle
Source: Dhabhar (2016)

Moreover, in the article "The whim's duel: Mini Cooper versus New Beetle" (2012) it is compared esthetic, mechanic and comfort of both cars. It states that Mini Cooper wins in sportsmanship and the New Beetle in comfort, but both are treated as a whim. However, in this sense Mini Cooper wins.

Finally, it says that the New Beetle would end production in 2018 after 20 years and two generations (this news is about to be confirmed), as traditional cars are not selling as utility-like vehicles are and VW needs to open production capacity. In addition, it has never good sales, and during the first quarter, 2016 VW delivered 5,700 Beetles in USA, representing a 42% decline over previous year (GANZ, 2016).

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Price comparison

In USA, the New Beatle is priced in a range of $20,000-$26,000 and in Argentina it is approx. $ 28,000 for the hard top[6]. It is presented as “stylish, extravagant, and cool” and the Cabriolet version as “dynamic, sporty, and confident” with “an unusual denim-like finish”[7].

It is fully equipped with features like six-speed automatic transmission, 2.5 liter five-cylinder and Electronic Stabilization Program (ESP), for safe driving under most conditions[8].

The article “Apuntes del lanzamiento del Volkswagen The Beetle” (2014) says that in Argentina the sales expectations for 2014 were (only) 500 units. In 2016, it was priced approx. $28,000/30,000 for a hard top[9] (a VW Vento costs approx. 26,000/31,000[10]) and in USA $20,000/26,000[11].

Because of this paragraph, it is noted that in time, the New Beetle changed its positioning from an “inexpensive car”, to a “toy” and to a “real and drivable car”, but simplicity, smallness and inexpensiveness were not maintained as in the classic Bug.

In addition, it was infused with German engineering and superiority in many areas of the product, made on the Golf platform. As a result, the “people’s car” was not for everyone, changing the original generic strategy (leadership in cost) to a differentiation strategy.

In addition, the target market and the selling proposition were thought after its design was completed, not before. Consequently, VW had not thought on what was needed in the market but on what they could produce.

Finally, prices are high in comparison to other cars offered in the market.

[6] From http://autos.mercadolibre.com.ar/volkswagen/the-beetle/, retrieved 11/16/2016.
[7] From http://www.beetle.com/int/en/home, recovered 11/16/2016.
[8] From http://www.conduciendo.com/vw-new-beetle-final-edition-2209, retrieved 11/16/2016.
[9] From http://autos.mercadolibre.com.ar/volkswagen/the-beetle/, retrieved 11/23/2016.
[10] From http://volkswagen.carone.com.ar/vento/?gclid=CPTn7NiNqNACFQIJkQod644FaA, retrieved 11/23/2016.
[11] From http://www.vw.com/models/beetle/section/safety/, retrieved 11/23/2016.

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6. CONCLUSIONS

Sustainable growth comes from a proper fit between strategy (a sufficient condition) and Operational Effectiveness (OE, a necessary condition, but not sufficient). While strategies is a path to sustainable profitability, selecting a different set of activities or do them in a different way, OE is about inputs and outputs and in doing better than competitors. In this sense, inclusive development should be seen as a big opportunity for growth.

Leadership is about strategy and management is about OE. That is why, leaders must focus on the present and future of their industries, selecting the right one to compete, an adequate set of activities and the next practices needed to go forward.

To be open and flexible is an imperative for sustainable growth. That is why leaders characteristics relate to nonconformity, look for uncharted territories, development through learning, helping others, inclusion, transparency, and loyalty.

To have a solid strategic perspective implies the understanding of the basic principles of Porter's generic strategies, its benefits and how it should be selected. As a result, it is important to understand generic strategies, as follows:

- Cost leadership implies cost reductions (no frills), efficiencies and ROI. There are needed differentiation sacrifices, if apply.

  As price is in competitive parity, the profit per product is low and the market share should be high.

  Its key concepts are: scale, cost reduction/minimization, integration, quick learning and control.

  Key company emphasis should be on efficiency and effectiveness.

- Differentiation relates to building a perceived uniqueness and attractiveness on products/services, and higher quality.

  As premium prices should be established, the profit per product is high and the market share is low.

  Its key concepts are: uniqueness, brand loyalty, less price sensibility and exclusivity.

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Key company emphasis should be on R&D and innovation.

- A middle position among one of these generic strategies involves harsh risks like low profitability, uncertainty and lack of clarity.
- Each generic strategy needs to develop a different set of organizational skills and a specific organization to be put in place, influencing the industrial sector in which the firm competes.

Taking into consideration what it was said before, the Smart and the New Beetle could be considered avoidable strategic mistakes, as per the following reasons:

- The Smart was not conceived for what it is expected from a car: versatility and friendly driven for long-distances; other better offers are found in the market. For the segment in which it competes, high differentiation and huge price premiums are not recognized because of customers' price sensibility.

  Moreover, it is possible that the Mercedes Benz's customer would not like to pay what is supposed for one of its products having the Smart (a cheaper product) as part of Mercedes' product line, giving an additional argument for which the Smart may compromise Daimler as a whole.

- The New Beetle (more seen as a toy than as a drivable car) changed the positioning of the old Beetle (simplicity, smallness and inexpensiveness), and its original generic strategy (from leadership in costs to differentiation). Being priced very high for what the classic Beetle was, it seems a car "not-for-everyone" and not a "people's car".

  For what it was said before, it is not said that a generic strategy is impossible to be changed. The fact is that pretending to sell a product just because it was an icon and not considering the minimum strategic basis may be a fault. New generations "forget" history and look for actual results.

  In addition, as the target market and the selling proposition were thought after completing the product design, VW seemed doing as in Ford's times: selling what is produced and not thinking on customer's desire or on what he/she could be delighted. To replicate icon products is not a synonym of excellent future sales and breakeven point achievement.

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Professor Porter while talking about strategy and generic strategies warns hazards and risks. The Smart and the New Beetle show the risks of higher differentiation that is not being paid by the customer, no matter how if it is about recognized brands or icon products. Losses and negative margins are applicable to every firm.

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