



SWOT analysis in action at Škoda

Introduction

In 1895 in Czechoslovakia, two keen cyclists, Vaclav Laurin and Vaclav Klement, designed and produced their own bicycle. Their business became Škoda in 1925. Škoda went on to manufacture cycles, cars, farm ploughs and airplanes in Eastern Europe. Škoda overcame hard times over the next 65 years. These included war, economic depression and political change. By 1990 the Czech management of Škoda was looking for a strong foreign partner. Volkswagen AG (VAG) was chosen because of its reputation for strength, quality and reliability. It is the largest car manufacturer in Europe providing an average of more than 5 million cars a year – giving it a 12% share of the world car market. Volkswagen AG comprises the Volkswagen, Audi, Škoda, SEAT, Volkswagen Commercial Vehicles, Lamborghini, Bentley and Bugatti brands. Each brand has its own specific character and is independent in the market. Škoda UK sells Škoda cars through its network of independent **franchised** dealers.

To improve its performance in the competitive car market, Škoda UK's management needed to assess its **brand** positioning. Brand positioning means establishing a distinctive image for the brand compared to competing brands. Only then could it grow from being a small player. To aid its decision-making, Škoda UK obtained **market research** data from internal and external strategic audits. This enabled it to take advantage of new opportunities and respond to threats.

The audit provided a summary of the business's overall strategic position by using a SWOT analysis. SWOT is an acronym which stands for:

- **S**trengths – the internal elements of the business that contribute to improvement and growth
- **W**eaknesses – the attributes that will hinder a business or make it vulnerable to failure
- **O**pportunities – the external conditions that could enable future growth
- **T**hreats – the external factors which could negatively affect the business.

This case study focuses on how Škoda UK's management built on all the areas of the strategic audit. The outcome of the SWOT analysis was a strategy for effective competition in the car industry.

Strengths

To identify its strengths, Škoda UK carried out research. It asked customers directly for their opinions about its cars. It also used reliable independent surveys that tested customers' feelings. For example, the annual JD Power customer satisfaction survey asks owners what they feel about cars they have owned for at least six months. JD Power surveys almost 20,000 car owners using detailed questionnaires. Škoda has been in the top five manufacturers in this survey for the past 13 years. In *Top Gear's* 2007 customer satisfaction survey, 56,000 viewers gave their opinions on 152 models and voted Škoda the 'number 1 car maker'. Škoda's Octavia model has also won the 2008 *Auto Express* Driver Power 'Best Car'.

CURRICULUM TOPICS

- Strengths
- Weaknesses
- Opportunities
- Threats



GLOSSARY

Franchised: business that works under the name of another and is authorised to sell its products for a fee or percentage of turnover.

Brand: a name, symbol or design used to identify a specific product and to differentiate it from its competitors.

Market research: data sourced from both within and outside a business that informs it about how its products and services are performing relative to competitors.





GLOSSARY

Brand image: how a particular brand name is perceived within the market by potential buyers.

Fragmented market: a market containing many sellers and many products.

Škoda attributes these results to the business concentrating on owner experience rather than on sales. It has considered ‘the human touch’ from design through to sale. Škoda knows that 98% of its drivers would recommend Škoda to a friend. This is a clearly identifiable and quantifiable strength. Škoda uses this to guide its future strategic development and marketing of its **brand image**.

Strategic management guides a business so that it can compete and grow in its market. Škoda adopted a strategy focused on building cars that their owners would enjoy. This is different from simply maximising sales of a product. As a result, Škoda’s biggest strength was the satisfaction of its customers. This means the brand is associated with a quality product and happy customers.

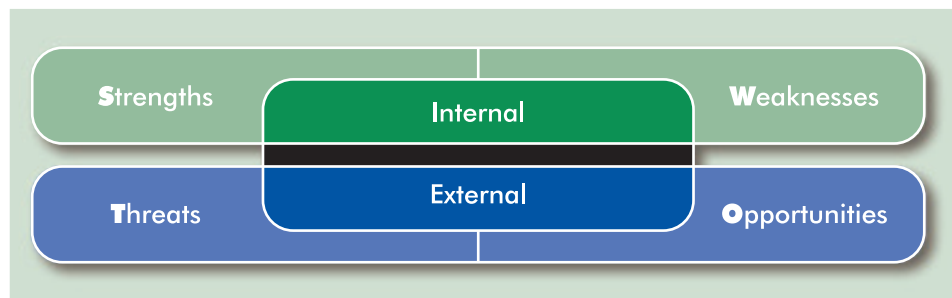
Weaknesses

A SWOT analysis identifies areas of weakness inside the business. Škoda UK’s analysis showed that in order to grow it needed to address key questions about the brand position. Škoda has only 1.7% market share. This made it a very small player in the market for cars. The main issue it needed to address was: how did Škoda fit into this highly competitive, **fragmented market?**

This weakness was partly due to out-dated perceptions of the brand. These related to Škoda’s eastern European origins. In the past the cars had an image of poor vehicle quality, design, assembly, and materials. Crucially, this poor perception also affected Škoda owners. For many people, car ownership is all about image. If you are a Škoda driver, what do other people think?

From 1999 onwards, under Volkswagen AG ownership, Škoda changed this negative image. Škoda cars were no longer seen as low-budget or low quality. However, a brand ‘health check’ in 2006 showed that Škoda still had a weak and neutral image in the mid-market range it occupies, compared to other players in this area, for example, Ford, Peugeot and Renault. This meant that whilst the brand no longer had a poor image, it did not have a strong appeal either.

This understanding showed Škoda in which direction it needed to go. It needed to stop being defensive in promotional campaigns. The company had sought to correct old perceptions and demonstrate what Škoda cars were not. It realised it was now time to say what the brand *does* stand for. The marketing message for the change was simple. Škoda owners were known to be happy and contented with their cars. The car-buying public and the car industry as a whole needed convincing that Škoda cars were great to own and drive.



Opportunities and Threats

Opportunities

Opportunities occur in the external environment of a business. These include for example, gaps in the market for new products or services. In analysing the external market, Škoda noted that its competitors’ marketing approaches focused on the product itself.

Audi emphasises the technology through its strapline, 'Vorsprung Durch Technik' ('advantage through technology'). BMW promotes 'the ultimate driving machine'. Many brands place emphasis on the machine and the driving experience. Škoda UK discovered that its customers loved their cars more than owners of competitor brands, such as Renault or Ford.

Information from the SWOT analysis helped Škoda to **differentiate** its product range. Having a complete understanding of the brand's weaknesses allowed it to develop a strategy to strengthen the brand and take advantage of the opportunities in the market. It focused on its existing strengths and provided cars focused on the customer experience. The focus on 'happy Škoda customers' is an opportunity. It enables Škoda to differentiate the Škoda brand to make it stand out from the competition. This is Škoda's **unique selling proposition** (USP) in the motor industry.

Threats

Threats come from outside of a business. These involve, for example, a competitor launching cheaper products. A careful analysis of the nature, source and likelihood of these threats is a key part of the SWOT process.

The UK car market includes 50 different car makers selling 200 models. Within these there are over 2,000 model derivatives. Škoda UK needed to ensure that its messages were powerful enough for customers to hear within such a crowded and competitive environment. If not, potential buyers would overlook Škoda. This posed the threat of a further loss of **market share**.

Škoda needed a strong product range to compete in the UK and globally. In the UK the Škoda brand is represented by seven different cars. Each one is designed to appeal to different **market segments**. For example:

- the Škoda Fabia is sold as a basic but quality 'city car'
 - the Škoda Superb offers a more luxurious, 'up-market' appeal
 - the Škoda Octavia Estate provides a family with a fun drive but also a great big boot.
- Pricing reflects the competitive nature of Škoda's market. Each model range is priced to appeal to different groups within the mainstream car market. The combination of a clear range with competitive pricing has overcome the threat of the crowded market.

The following example illustrates how Škoda responded to another of its threats, namely, the need to respond to EU legal and environmental regulations. Škoda responded by designing products that are environmentally friendly at every stage of their life cycle. This was done by for example:-

- Recycling as much as possible. Škoda parts are marked for quick and easy identification when the car is taken apart.
- Using the latest, most environmentally-friendly manufacturing technologies and facilities available. For instance, areas painted to protect against corrosion use lead-free, water based colours.
- Designing processes to cut fuel consumption and emissions in petrol and diesel engines. These use lighter parts making vehicles as aerodynamic as possible to use less energy.
- Using technology to design cars with lower noise levels and improved sound quality.

Outcomes and benefits of SWOT analysis

Škoda UK's SWOT analysis answered some key questions. It discovered that:

- Škoda car owners were happy about owning a Škoda
- the brand was no longer seen as a poorer version of competitors' cars.

However,

- the brand was still very much within a **niche** market
- a change in public perception was vital for Škoda to compete and increase its market share of the mainstream car market.



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GLOSSARY

Differentiate: to distinguish a business from its competitors.

Unique selling proposition: represents something of value that causes one product or service to be attractive to purchasers.

Market share: the percentage of sales within a market that is held by one brand or company.

Market segment: a recognisable consumer group consisting of people with similar needs and requirements.

Niche: an area of a market that has a particular group of customers with specific requirements.





The challenge was how to build on this and develop the brand so that it was viewed positively. It required a whole new marketing strategy.

Škoda UK has responded with a new marketing strategy based on the confident slogan, 'the manufacturer of happy drivers.' The campaign's promotional activities support the new brand position. The key messages for the campaign focus on the 'happy' customer experience and appeal at an emotional rather than a practical level. The campaign includes:

- The 'Fabia Cake' TV advert. This showed that the car was 'full of lovely stuff' with the happy music ('Favourite things') in the background.
- An improved and redesigned website which is easy and fun to use. This is to appeal to a young audience. It embodies the message 'experience the happiness of Škoda online'. Customers are able to book test drives and order brochures online.

The result is that potential customers will feel a Škoda is not only a reliable and sensible car to own, it is also 'lovely' to own.

Analysing the external opportunities and threats allows Škoda UK to pinpoint precisely how it should target its marketing messages. No other market player has 'driver happiness' as its USP. By building on the understanding derived from the SWOT, Škoda UK has given new impetus to its campaign. At the same time, the campaign has addressed the threat of external competition by setting Škoda apart from its rivals.

Conclusion

Škoda is a global brand offering a range of products in a highly competitive and fragmented market. The company must respond positively to internal and external issues to avoid losing sales and market share.

A SWOT analysis brings order and structure to otherwise random information. The SWOT model helps managers to look internally as well as externally. The information derived from the analysis gives direction to the strategy. It highlights the key internal weaknesses in a business, it focuses on strengths and it alerts managers to opportunities and threats. Škoda was able to identify where it had strengths to compete. The structured review of internal and external factors helped transform Škoda UK's strategic direction.

The case study shows how Škoda UK transformed its brand image in the eyes of potential customers and build its competitive edge over rivals. By developing a marketing strategy playing on clearly identified strengths of customer happiness, Škoda was able to overcome weaknesses. It turned its previously defensive position of the brand to a positive customer-focused experience. The various awards Škoda has won demonstrate how its communications are reaching customers. Improved sales show that Škoda UK's new strategy has delivered benefits.

Questions

1. What was the key weakness that Škoda was able to identify?
2. What strength did Škoda use to turn its brand weakness into an opportunity?
3. How has Škoda strategically addressed external threats?
4. What in your view are the important benefits of using a SWOT analysis?

