

Online Media Resources

Video Short

Log on to your Companion Website at www.pearsoned.ca/kotler to view the video segment related to the Video Case on page 321.

CBC • CBC Video Case

Please refer to Appendix 2 to read a CBC Video Case for this chapter, and log on to your Companion Website at www.pearsoned.ca/kotler to view the corresponding video segment.

Case Pilot

Log on to your Companion Website at www.pearsoned.ca/kotler to sharpen your case analysis skills and take the Case Pilot Challenge!

Company Case

GM: Downsizing the Hummer

You probably know that the Hummer derives from what American soldiers informally call the “Humvee,” which is an acronym for the formal designation, “High Mobility Multi-Purpose Wheeled Vehicle.” In addition to seeing the TV ads, you’ve probably also seen the original nonmilitary Hummer, the H1, or its smaller off-spring, the H2, around town. Canadian rental car companies offer them for those who want to be weekend warriors, and off-road tour operators promise people experiences of a lifetime around Banff.

The vehicle was born in 1979, when AM General, a specialty vehicle manufacturer, earned a contract from the U.S. Army to design the Humvee. TV coverage of the military build-up in advance of the Gulf War in 1991 introduced the public to the workhorse Humvee. In 1992, AM General, responding to the Humvee’s notoriety, decided to introduce the first *civilian* version of the Humvee—the Hummer. Weighing in at 3220 kg, the Hummer featured a huge, 6.5 litre V-8, turbo-diesel engine that produced 195 horsepower and propelled the Hummer from 0 to 100 kph in a snail-like 18 seconds. However, the Hummer’s purpose was not speed. AM General designed it, like its military parent, to take people off the beaten path—way off. The Hummer could plow through water to a depth of 76 cm and climb almost vertical, rocky surfaces. It even had a central tire inflation system that allowed the driver to inflate or deflate the vehicle’s tires while on the move.

The advertising tag line dubbed the Hummer as “The world’s most serious 4 x 4,” and ad copy played up the vehicle’s off-road capabilities and its military heritage. AM General targeted serious, elite road warriors who were willing to pay more than US\$100 000 to have the toughest vehicle in the carpool. These people wanted to tell the world that they had been successful. To help buyers learn how to handle the Hummer in extreme off-road situations, AM General even offered a

Hummer Driving Academy, where drivers learned to handle 56 cm vertical walls, high water, 40 percent side slopes, and 60 percent inclines.

GM’s Market Research

In 1998, GM was conducting market research using a concept vehicle that it described as rugged and militaristic. When the vehicle bore the GMC brand name (GM’s truck division), the company found that consumers had a lukewarm reaction. However, when GM put the Hummer name on the vehicle, researchers found that it had the highest, most widespread appeal of any vehicle GM had ever tested. Armed with this insight, GM signed a 1999 agreement with AM General, giving it rights to the Hummer Brand. AM General also signed a seven-year contract to produce the Hummer H2 sport utility vehicle for GM.

Based on its research, GM believed that the H2, a smaller version of the Hummer, would appeal to rugged individualists and wealthy baby boomers who wanted the ability to go off-road and to “successful achievers,” 30- and 40-something wealthy consumers who had jobs in investment banking and the like. GM believed that it could introduce the H2 in the luxury SUV market and compete successfully with brands such as the Lincoln Navigator or GM’s own Cadillac Escalade. In July 2002 it launched the vehicle at a base sticker price of about US\$49 000. It predicted that it could sell 19 000 H2s in 2002 (the 2003 model year) and then ramp up production to sell 40 000 units per year thereafter—a number that would make the H2 the largest seller in the luxury SUV market.

The Launch

Right on schedule in July 2002, GM introduced the 2003 Hummer 2. For the H2, GM targeted buyers with an average age of 42 and annual household incomes

above US\$125 000 versus H1 owners' averages of about 50 years old and household incomes above US\$200 000.

GM and AM General designed and built the H2 in just 16 months, using GM's GMT 800 truck platform and a number of parts used in other GM models. The H2 was about the same size as the Chevy Tahoe, 13 cm narrower than the Hummer and about 32 kg lighter. However, it was about 635 kg heavier than other SUVs. It had a 316-horsepower engine that slurped almost 20 litres of gasoline every 100 km. It also featured a nine-speaker Bose stereo system. Buyers could upgrade the base model with a US\$2575 luxury package that added heated leather front seats and a six-disc CD changer or with a US\$2215 Adventure package that added air suspension, brush guards, and crossbars for the roof rack.

For promotion, GM used TV ads that broke on shows such as *CSI: Miami* that featured a well-dressed woman driving the H2 through an urban business district. The ad concluded with the line, "Threaten Men in a New Way." A later ad featured a young boy who builds a soap-box-derby-style racer that looks like a small Hummer. Although it was slower, he won the downhill race by going off-road and cutting across the paved, zig-zagged race course to edge out the typical race cars at the end.

The On-Road Test

At the H2's launch, auto analysts noted that it had a surprisingly smooth ride, but some questioned the quality of the interior furnishings and criticized the lack of storage space. The H2 sat only five people unless the owner installed an optional sixth seat in the back beside the spare tire. Further, they wondered if consumers would really spend so much for an off-the-road vehicle that studies showed only 10 percent of owners would ever take off the road. In addition, analysts noted the increasingly crowded luxury SUV market with pending entries from Porsche, BMW, Volvo, and Infiniti.

Despite the criticism, H2s roared out of the showrooms. Some buyers waited months to take delivery and even paid up to a US\$10 000 price premium just to get one. GM was realizing profits of US\$20 000 per vehicle. It reached its first-year target by selling 18 861 H2s by mid-2003. For calendar 2003, GM sold 35 259 H2s. Then, demand slowed, and GM began to offer \$2000 dealer-cash incentives to try to reduce dealer inventories from an 80-day supply to a 45-day supply. Moreover, in early 2004, after five straight months of

sales declines, increasing gas prices seemed to be taking their toll on Hummer sales and pushing it toward the bottom in J.D. Power customer satisfaction ratings. H2 owners were forking out US\$50 for gas every 515 km! Analysts thought GM would have to reduce its annual sales target to 30 000 H2s.

These events, however, did not deter GM from pursuing its long-term plan to sell 100 000 Hummer-branded vehicles a year. In mid-2003, it introduced the H2 Sport Utility Truck (SUT), an H2 with a pickup-truck-style cargo area in back replacing the enclosed area in the standard H2. The basic SUT's price was about US\$1000 more than the base SUV.

In 2005, GM planned to introduce an even smaller Hummer, the H3 SUV. Priced in Canada in the \$29 000 to \$36 000 range, the company wanted the smaller, less menacing H3 to target drivers under 40. It believed the H3 would be especially appealing to young males, including teenagers.

GM wants to show that the smaller Hummers can retain the gesture, stance, and attitude of the larger Hummer. GM officials indicate that the typical Hummer owner makes more than US\$200 000 a year and has two other vehicles he or she uses for routine driving. The Hummer is for fun. These officials believe that continued high gas prices will not affect Hummer sales. Hummer owners are proud and know that they will get attention. They own a Hummer because they want to and can afford it.

Some industry analysts, however, wonder if introducing more Hummers will dilute the brand's image and even steal sales from other GM vehicles. They argue that the decision to introduce smaller and lower-priced Hummers is a risky move, especially given the brand's aspirational nature.

Now What?

When GM was making its lofty sales projections, it did not expect the soaring gas prices that sent sales of sport utility vehicles into the tank through much of North America. In 2005, hurricanes Katrina and Rita and fears of gas shortages sent fuel prices soaring to well above \$1 a litre across most of Canada and US\$3 a gallon south of the border. "These ultra high gas prices are taking a toll on the larger, less fuel-efficient light trucks," said industry analyst Dennis DesRosiers, who heads DesRosiers Automotive Consultants Inc. in Richmond Hill, Ontario. The slide hit large SUVs, such as the Hummer, in particular, and sales in that category slumped by as much as 50 percent. The SUV slide may, however, be a regional phenomenon. As one Regina

dealer noted, "Out here, [gas prices] are not top of mind." Carlos Gomes, a Bank of Nova Scotia economist, noted, however, that the mood of consumers is likely more buoyant in provinces that benefit from high oil prices, such as Alberta, than it is in Ontario and Quebec, which are the biggest markets for new vehicles.

SUV sales have been further hampered by the fact that they have long been targeted by environmental activists. With more and more evidence suggesting that global warming is a reality, these voices are gaining ground. For example, students in France target SUVs parked along the streets of Paris and paint signs on them to attack their owner's lack of environmental sensitivity. Sales of hybrids are on the rise and increased by 81 percent in North America in 2004. Though this represents less than 1 percent of the North American vehicle market, it is the fastest-growing segment. A report prepared by Booz Allen Hamilton projects that hybrids could reach 20 percent of new vehicle sales by 2010 and 80 percent by 2015. As 96 percent of the hybrids are produced by Japanese car makers, GM and the other North American car makers may be unable to play catch up.

S
b
D

Business Week, February 23, 2004, p. 49; Rick Dranz, "How Will Hummer Get Smaller? Check out H3T," *Automotive News*, December 15, 2003, p. 20; Dave Guilford, "Would a Small Hummer be Dumber?" *Automotive News*, October 13, 2003; Melanie Well, "Muscle Car," *Forbes*, July 22, 2002, p. 181; David Welch, "More Sport, Less Utility," *Business Week*, July 8, 2002, p. 110; Jean Halliday, "Of Hummers and Zen," *Advertising Age*, August 6, 2001, p. 29; Gregory L. White, "GM's New Baby Hummer Shares Its Toys With Chevy," *The Wall Street Journal*, April 10, 2001, p. B1; Greg Keenan, "SUV sales tank as gas soars," *Globe and Mail*, October 4, 2005; Jim Harris, "Bank on SUVs, Get Hammered by Gas Prices," Green Party of Canada, www.greenparty.ca/page110.html (accessed August 2006).

n
e