TOM TOM case study analysis
Strategic Management
Individual Assignment

Susan Erasmus - 10976043
MBA III
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1. What strategy is TomTom pursuing?

TomTom is pursuing a broad differentiation strategy. Based on the strategy information given on their website they strive to provide the best location and navigation solution on multiple platforms. They supply portable navigation devices, built in systems as well as software for mobile phones, internet and other online applications.

“Differentiation strategies are attractive whenever buyers' needs and preferences are too diverse to be fully satisfied by a standardized product offering” (Thompson et al. 2012: 193)

Key features of a broad differentiation strategy are:

- A Broad cross section of the market.
- Ability to offer something attractively different from the competitor to the buyer.
- Many product variations, wide selection; emphasis on differentiating features.
- Build in differentiating features which buyers are willing to pay for; striving for product superiority.
- Tout differentiating features.
- Ability to charge a premium price to cover the extra costs of differentiating features.
- Constant innovation to stay ahead of competition.
- Concentrating on a few key differentiating features
- Capabilities concerning quality, design, intangibles and innovation.

2. How well is the strategy working?

Based on the above, key points taken out of TomTom’s strategy are things like:

- Providing the best.
- Continuously improving and tailoring our solutions in terms of accuracy, relevance and completeness.
- Areas of excellence.
- Continue to innovate ahead of the rest of the industry.
- Vertically integrated, owning key assets.
• Dedicated to make our products, content and services easily accessible to customers.
• Strive to make content and services valuable to customers.

To test if a strategy is a winning strategy we need to look at the following three areas;

i. **The Fit Test**: Based on the information provided in the case study, TomTom’s strategy does fit the industry and is in line with the prevailing market conditions. With its wide range of products ranging from portable navigation devices, in-dash infotainment systems, fleet track and trace solutions to software navigation application, real time traffic services and digital maps they are well aligned with the industry requirements and customers demands. With its mergers and acquisitions they are staying abreast with changes and challenges in the market.

ii. **The competitive advantage test**: Having better maps and better routing capabilities they have a competitive advantage in the market. Other advantages are the fact that they have the leading position in the European market and they are selling their product in over 40 countries. TomTom have various different price ranges that they offer, focussing on different customer segments. They have a large distribution network selling their PND’s to customers through retailers and distributors. With its biggest rival Garmin who has the leading market share, they are continuously being innovative and signing new partnerships to increase their own market share in other countries. One thing that was found lacking is the fact that TomTom does not market all of their products well.

iii. **The performance test**: Looking at profitability and financial strength. From 2005 to 2007 the company had a consistent growth in revenue sales with a corresponding increase in net income. This changed in 2008 with a decline in sales revenue of 3.7% and a net income decrease of 136%. This can be accounted by the downturn of the economy but also indicates that TomTom did not change its strategy quick enough to absorb the changes in the economy. Sales revenue further decreased in 2009. Also look at competitive strength, TomTom is suffering from continuous pressure from competition and
decrease in retail prices of GPS units. Garmin is still the leader in the market with a market share of 45% while TomTom has a market share of 24%.

Based on the above tests, TomTom has a competitive strategy but not a total winning strategy. They need to look at the industry and be more pro-active at market changes and other threats which they identified.

3. **Does the satellite navigation industry offer attractive opportunities for growth? What kind of competitive forces are industry members facing and how do the forces influence the outlook for industry profitability?**

In terms of the satellite navigation industry’s opportunity for growth the answer would be yes. There is still room for growth in selected markets even though there is an increase in competitors.

Looking at the market for portable GPS navigation systems, it remains hot with different and new models coming out all the time. With the markets continuously changing and factors influencing the industry we will look at some components of the company’s macro-environment.

i. **Economic characteristics of the industry:**

- **Demographics:** Mature U.S. and European personal navigation device markets with small potential to grow. Still huge opportunities lie in other countries which need to be expanded. Countries such as Asia, Middle East and Africa.

- **Social Forces:** Rural areas have the challenge that most of its population is not technological educated and might not want or need satellite navigation devices.

- **Political, legal, and regulatory factors:** The possibility of legislative banning off navigation devices in automobiles is increasing with a growing concern of the distraction these devices cause. Other Laws with regard to the mounting of these devices will also influences the markets. For example in Minnesota the law prohibits drivers from installing any devices on a windshield and California has restrictions on placement of these devices. With the increase in these types of legislations adding to the restrictions placed on portable navigation
devices the market will be limited. In some countries due to security and terrorism, GPS systems are not allowed. Other issues within the legal and political spectrum are the growing use of these devices as tracking devices. This holds a threat to consumer privacy. Theft is also a concern as it is on the increase and companies need to be innovative on how to hide these devices. **Technology factors:** Aging satellites are becoming a huge concern and none of the companies have any control over this. This could cause the failure of the GPS system globally. GPS functionality is becoming a standard feature on all new mobile smart phones entering the market and will soon also become a standard feature on any cellular phone which could cripple the portable navigation device market. **General economic conditions:** The economic environment has still not fully recovered after the huge recession in 2009. This will still have an effect on revenues. These devices are still seen as a luxury and not a necessity.

ii. **Anticipated changes in this industry:**
Demand for portable navigation devices have declined as traffic and mapping functions are becoming an almost standard feature in cars and mobiles. It will thus look like these devices’ market has reached its saturation point. It would seem that more focussed is placed on fleet tracking in the satellite navigation industry and companies need to shift focus and adjust their strategies accordingly. Other market which is still available is that of aviation and marine navigation devices.

iii. **Competitors:**
Based on competitor information, Garmin still has the largest market share globally as a whole, but not in all countries. Garmin currently has largest market share in Europe amounting to 45% and is starting to take largest market share in South Africa. The risk for the PND market is the fact that consumers are looking at cutting spending and with these devices still seen as a luxury, nice to have item sales are still expected to drop. With mobile device capabilities in the GPS market sales are not expected to recover in the future. Referring to Appendix 1, figure 1, it is clear that in the PND industry, the market has consolidated. Garmin is the leader in global market share with
TomTom coming in second while TomTom is the leader in Europe with Garmin second but lagging far behind.

Based on figure 2: strategic mapping, Garmin still has the widest range of products with TomTom following short. However with additional partnerships lined up this would soon change.

iv. **Porter’s Five Forces Model:**

**Threat of new entrants:** *MEDIUM*

TomTom has a competitive advantage in terms of its global footprint. There is a large increase in GPS application on smart phones and cellular phones. The PND market is consolidated and as a standalone product or service it is preventing companies from entering the market, but rather causing the exit of smaller companies.

**Threat of substitutes:** *HIGH*

With software applications available to cellular phones, smart phones and I-pads at lower cost, there is a decrease in portable navigation system sales. PND are highly threatened by these handsets which in some cases bring free GPS applications which can be more cost effective for the consumer. On the other extreme is the growing popularity of in-built navigation devises in the car industry which is expected to keep its high prices.

**BARGAINING POWER OF SUPPLIERS:** *LOW*

TomTom has outsourced its supply chain as well as its distribution model which increases their ability to scale up or down while at the same time limiting their capital expenditure risk. The supply distribution risk of the high volume products are mitigated by maintaining dual-sourcing production from two different manufacturing partners.

**BARGAINING POWER OF BUYERS:** *LOW*

This is considered to be low as buyers will test different navigation systems before deciding on one. Allot of websites are dedicated to compare various navigation devices on behalf of the user and recommend accordingly. In-built navigation systems are chosen by the manufacturer and the consumer does not have a say in this. Software applications for mobile phones are also mostly chosen by the manufacturer and not the actual consumer.

**CURRENT RIVALRY:** *HIGH*
Although the main players have been identified and market share is mostly set, it seems that a price war has started between these companies. Bases on this, it seems that it has not affected the revenues; however it is affecting the bottom line of TomTom. Differentiation between the products is becoming less and comparison of products is available on the web.

v. **Key success factors;**
   - The TomTom brand
   - Various partnerships and strategic contracts
   - Manufacturing capabilities
   - Real time and accurate route information and arrival times
   - Variety of products and services

4. What are the strengths and weaknesses of TomTom? What are the threats and opportunities facing the company?
5. Do you think TomTom’s shift to value-added services and making Personal Navigation Devices (PND) a smaller portion of total revenue will be enough to sustain it in the near future? Is this strategy consistent with the needs of markets outside North America and Europe?

No

There is still a huge untapped market in the navigation device market. By shifting the focus away from this will result in them losing market share. Based on the SWOT analysis above there is still large opportunities in the PND market outside North America and Europe and even in these countries. By shifting its strategy and focus more to value added services is also not a bad decision as with the increase in
competition, price wars and entry of smart phones they need to plan ahead on how to replace the PND revenues in the future.

6. **What recommendations would you like to make to TomTom management to improve its competitive position in the satellite navigation industry, take advantage of market opportunities, and defend against external threats?**

Based on the analysis the following recommendations are made:

a) Expand the footprint of TomTom’s HD traffic. This feature is not available in all of the countries in which they are currently operating and it is strongly recommended that it rolls out in all urban areas.

b) Look at partnership or service agreement with a Smartphone or mobile network operator/manufacturer.

c) Duplicate the successful Renault partnership with other motor and truck manufacturing companies.

d) Expand and be innovative in the fleet industry. There is continuous growth in this market. It is however price sensitive with the large competition in this area.

e) Augmented Reality (AR). This is one of the key technologies and offers new possibilities in the navigation capabilities. Investigate and see how this can be incorporated into existing and new product lines.

f) Need to mix in the value of the benefit that path tracking would add to the accuracy of their traffic data (more precise location, more coverage especially in rural areas where cell towers are less dense and where reliable traffic data cannot now be provided.

g) Pursue the competition into the mobile industry by creating a mobile handset. By doing this TomTom can become prominent in the PND market.
APPENDIXES

FIGURE 1: Market shares PNDs

FIGURE 2: Comparative Market positions of selected PND: a Strategic Group Map
REFERENCES