

Keynote address

The new range of European automobiles and their challenging requirements for the lead-acid battery industry

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Since 1989, the year in which the well-known political and economic changes took place, the Czech industry—and the automobile industry in particular—has passed through several stages of rapid change and development. The long-term relationships, cooperations and trade links to the countries of the former Eastern Block were broken in a short time. The reasons were: transition to freely convertible currencies; the first clashes with the aggressive competition of Western manufacturers; attempts to grow rich quickly; the collapse of numerous specialized trade organizations. Two of the consequences of these activities were substantial decrease in gross domestic product and increasingly lower industrial production.

A specific situation developed in the Czech Republic (or, to be more accurate, in the former Czechoslovakia) in 1991 when the government devalued the local currency by a high percentage and created a pillow to support exports of locally produced goods, which at that time were not truly competitive. This was accompanied by a decrease in the costs of Czech labour in comparison with the world market, and an acceleration in the existing negotiations of numerous state-owned enterprises that aimed at privatization by forming joint ventures with foreign partners who could provide capital and could transfer know-how.

This was the starting point of SKODA AUTO, which was founded on 16 April, 1991 as a joint venture between the AZNP SKODA of Mladá Boleslav and the Volkswagen Group. At that time, the basic aim of the government and of the company's management was to make use of the strategic partner's support in order to renew the existing enterprise, and to secure its future in the increasingly demanding competition among the world's automobile manufacturers. On the other hand, the SKODA of that time brought a tradition of nearly 100 years of automobile manufacture, highly qualified personnel and, as a regional manufacturer of a well-known brand, access to the markets of Central and Eastern Europe.

In the first phase of the joint venture, the chief objectives were to restructure all existing sections of the Com-

pany (finance, environmental protection, sales network, etc.), to modernize the existing products, to implement and fully integrate quality management processes into all sections of the Company, to refurbish the manufacturing plant, and to retain the cost advantage of the Czech production locality for future years. To achieve these objectives, numerous changes and improvements had to be made within SKODA AUTO—as well as, to an equal extent, in the production plants of the suppliers.

In a short time, a considerable number of suppliers were converted to joint ventures. Today, the Company has joint ventures with a total of 83 suppliers which include a significant number of foreign partners. These ventures have been formed as a direct consequence of the integration into the Volkswagen Group, and nine are based on already existing production plants which have been subsequently modernized. The restructuring process is still continuing, although at a slower rate. Awareness of the need for quality and of the true meaning of entrepreneurship is growing rapidly in these previously government-controlled, inefficient companies. The role of these companies as carriers of societal transformation and warrantors of long-term growth is increasingly important.

The production of classic lead-acid batteries passed through a period of rapid development in the Czech Republic. AKUMA, a monopolist manufacturer for many years, was suddenly faced with competitors who built their plants virtually 'next door'. Nevertheless, AKUMA management was able to achieve substantial improvements in both the quality and the service life of their automobile batteries, which is reflected by the fact that the company continues to supply SKODA with batteries. The successful transformation of this supplier and the high quality of its products is clearly demonstrated by the fact that, in 1998, AKUMA received the SKODA Quality Award for the third time.

The fundamental transformation of enterprises, at least in the automobile industry, has now been completed. One of the drivers for this change has been the clash with

aggressive world-wide competition. Analysis shows that, particularly in the field of quality, all the general requirements of certification by the ISO 9000 Standard have been met, and that the comparison with other foreign suppliers is favourable. The target for the next phase must be to retain the comparative advantages of Czech industrial companies. This applies to all factors, chiefly: productivity growth; stabilization of ownership; a high degree of flexibility; comprehensive services from engineering the products to recycling them at the end of life.

What does restructuring really mean to SKODA AUTO? From the point of view of manufacturing, there has been a substantial rise in production from the original 172 000 cars of one model range with a single drive-train in 1991 to 357 170 cars in 1997, and over 400 000 cars in 1998. The production of a new medium-class car—the SKODA Octavia—has started. This vehicle has improved considerably the Company's brand image, and has proved very popular with customers. Nowadays, SKODA cars are offered with a range of seven gasoline and three diesel engines. Clearly, such growth is not going to stop, and every effort is being made to sustain it.

A parallel rise in sales was recorded after the state-owned sales network had been replaced by the SKODA organization. While SKODA cars were sold in 30 countries (mostly European) in 1991, the Company is now active in more than 76 markets after an expansion drive into both the South American and the Asian markets. Growing customer interest in Western Europe is a consequence of the long-term activity and continuous efforts to improve the image of the SKODA brand.

The financial results and the significance of SKODA are also important for the Czech Republic. With a turnover

of more than 90 billion Kc (4990 million DM), the Company is the largest commercial enterprise in the Czech economy. The Company employs, directly and indirectly, more than 3% of the country's total workforce, and accounts for nearly 8% of the country's exports. One of SKODA's aims is 'quality in everything we do', which includes the quality of the financial results. The Company achieved a pre-tax profit of nearly three billion Kc in 1997. After taxation, the profit was 1.168 billion Kc (62.8 million DM). Obviously, a comprehensive programme of capital expenditure is required for the changes, restructuring and renewal that have been described above. On average, 12% of turnover has been invested annually between 1991 and 1997. Most of this was spent on engineering the new SKODA Octavia automobile, together with the essential production plant which included a new paint-shop and an assembly plant of outstanding architectural design.

Growth is a synonym for SKODA success and transformation. This also applies to other industrial companies in the Czech Republic, whose managements have answered the challenge to convert their state enterprises into successful companies which can operate in an open market economy. In principle, this process is unrepeatably—it is a process which can be experienced only once in a lifetime. It cannot be compared with renewal anywhere else in the world. This is because the starting conditions and progressive development of the contemporary conditions require a maximum of flexibility and a readiness to search constantly for new and untraditional solutions to management problems, so as to guarantee the positive development of society in the next millennium.