

ASSESSMENT 2 ENVIRONMENTAL ANALYSIS OF GENERAL MOTORS
WITHIN THE AUTOMOBILE INDUSTRY

Course Title: The Global Business Environment
Course Code: LCCB4005
Date: 29th of December 2021
Word count: 2128

The impact of the pandemic on the Automobile Industry

Introduction

The Covid-19 occurred at an unprecedented time, and many industries had no prior strategy out of the situation. Governments initiated strict measures to help stop the virus's spread, including lockdown, curfew, and cessation (Nayak et al., 2021). The automobile industry suffered a significant loss following the pandemic's adverse effects. Most manufacturing plants closed down or reduced human capital in adherence to government directives.

According to (Carlier, 2021), the European Union is estimated to record a 2.5billion loss due to manufacturing disruptions. The estimated figure is primarily due to declined automobile parts and exports from China. Notably, the decreased productivity may increase since China's manufacturing industry is expected to reduce by 2% due to Covid-19 adverse effects.

According to (Kufelová & Raková, 2020), the manufacturing industry is an economy's pillar of economic growth. The automobile industry contributes high revenues to countries' GDP. It is the primary source of FDIs in some countries, especially Eastern Europe. Notably, the industry extends to other sectors that significantly impact the economy. For instance, the stock market under the National Stock Exchange of Automobiles exhibited adverse fluctuations due to the pandemic (Nayak et al., 2021). Auto dealers and suppliers experienced a sharp decline in spare part orders leading to mass labour losses. Further, the automobile salesforce witnessed a challenging phase due to declined vehicle purchases as households hoarded money due to increased uncertainty. Also, the credit companies are likely to witness massive loss evasions and declined loan uptakes tied to logbooks. Thus, the pandemic impacted various automobile stakeholders directly and indirectly.

Major forces shaping the global business environment

According to (Cherunilam, 2016, p.4), a business environment is all factors that impact a firm's operations. Businesses operate in a competitive external environment characterised by various external forces. The internal business environment is defined from a comprehensive SWOT analysis that shows a company's strengths and weaknesses. The external environments that have consistently shaped the international business environment include economic, political, legal, competitive, technological, and social (Lumen, 2020, p.67). The factors operate as a unit; hence, disruption in one causes negative ripple effects on others. Thus, a covid-19 adverse impact on one factor, such as the economic or social environment, must have negatively impacted others. The major globalisation forces include declining trade and investment barriers and technological advances.

Declined trade and investment barriers

The global economic environment has greatly evolved in the recent past. Countries such as the US, which have dominated global markets, experience stiff competition from developing economies (Lumen, 2020). Declining trade and investment barriers have encouraged growing FDIs across countries. Through bilateral and regional agreements, most countries have eased trade barriers such as tariffs and quota restrictions, promoting internationalisation (L., 2021). For instance, the EU reduced trade barriers for all its member states, while North America has a Free Trade Agreement among US states, Canada, and Mexico. As a result, there is a commendable flow of goods and services. Further, according to (L., 2021, p.68), the improvement in global trade has led to an increased value of FDI across countries and the amount of traded goods and services. However, with many countries experiencing adverse

covid-19 effects, decreased production of essential spare parts adversely affected the global automobile industry.

Technological advances

While easing trade barriers made internationalisation possible, technological advances helped accelerate the process. Notable advancements include transport, communication, and the internet of things. Technological innovations in communications include the low-cost microprocessor, which allows a cost-efficient flow of large data across wireless technologies. According to Moore's law, the technology's doubles while its cost halves every 18 months. Thus, as communication technology improves, globalisation continues to grow.

Additionally, the development of the internet has revolutionised global e-commerce and communications. The internet has reduced the world into one global village where buyers and sellers can conveniently locate each other regardless of location and size (L., 2021, p.70). Small, medium, and large businesses have an equal competing platform at an affordable cost than before. A crucial milestone in the advent of the internet entails remote control and management of global subsidiaries. As a result, internationalising firms can expand freely while maintaining control.

Furthermore, technological advancements in transport, including containerisation, commercial jet travel, and super-freights, have simplified global transshipment. In addition, fast jets have reduced traveling times across different destinations improving ease of market access. Containerisation has greatly helped transport goods across the globe leading to increased globalisation and production (L., 2021, p.71). However, as governments introduced cross-border travel restrictions, international trades suffered losses. For instance, shipping of automobiles and spare parts was halted as countries rushed to prevent inter-border spreading of covid-19.

Five forces model in the context of PESTEL Analysis

Michael porter developed the five forces model to analyse and understand the global business environment structure critically. It is a crucial concept for businesses in the operating environment (Cherunilam, 2016, p.13). According to porter, competition in industries depends on rivalry among firms, the threat of new entrants, threats of substitutes, suppliers' bargaining power, and buyers' bargaining power. The PESTEL analysis the external environmental factors that affect business operations.

Legal and Political environment

The legal environment is a sophisticated concept that may impact a global business. Notably, firms must comply with numerous laws and regulations in the host countries (Lumen, 2020). Political changes such as new governments that do not support MNEs may negatively affect internationalising companies. Notable, negative political environment may discourage FDIs for fear of losing huge capital outlay. According to the five-model structure, entry barriers such as government policy and regulation may prevent global operations (Cherunilam, 2016, p.14). For instance, automobile import restrictions may negatively affect the global automobile industry. Notably, changes in legal laws may stimulate changes in business operations. For example, strict privacy laws may require significant business changes like branding.

Economic environment

Economic systems differ significantly among different nations. For instance, changes in labour laws, wage rates, and economic conditions affect the overall business environment (Lumen, 2020). According to porter, monopolistic power control of distribution channels and raw materials act as market entry barriers. Notably, the threat of substitutes in a competitive market may affect business profitability (Cherunilam, 2016, p.16). Porter notes that

substitutes with a high vulnerability to industry pre-performance trade-off should have close attention. Further, the rivalry of existing companies may influence global business operations. For instance, the number of firms in an industry may impact the competitive strength. However, the automobile industry has limited market players due to high switching costs and investment.

Social environment

The social environment includes desires, wants, values, and society beliefs. Other social factors include demographics and ethnicity. CSR creates a friendly business image for consumers, increasing customer loyalty (Lumen, 2020). The elements are constantly fluctuating owing to global trends. According to porter's competitive structure, the bargaining power of buyers impacts business operations. While businesses compete to maintain high and profitable prices, buyers champion lower prices, high-quality offerings, and more products. In perfect competition, buyers have excellent information about prices and demand, influencing market rates. As a result, buyers tend to be price-sensitive in a market with many close substitutes (CFI, 2020). Thus, product homogeneity in the automobile industry may lead to low pricing to attract customers. However, if the industry has few suppliers, the industry dictates the market prices. For instance, the automobile industry exhibits high switching costs, hence few suppliers. Thus, the sector has monopolistic elements in price control.

Reasons businesses engage in international trade

Heckscher-Ohlin theory

International trade and differences in factor endowment

According to the Ricardian trade theory, firms enjoy a comparative advantage due to differences in productivity. Ricardo emphasised labour productivity as the primary

distinguishing element. However, Heckscher and Ohlin proposed differences in factor endowments as central to inter-country comparative advantage (L., 2019, p.174). Factor endowments include capital, labour, and land, the primary factors of production. Notably, countries have different factor endowments, hence the differences in factor costs. As a result, countries export goods that utilise abundant elements and import goods that use factors that are scarce locally. As a result, businesses cut costs in the process. For instance, countries import automobile spare parts from China as it is well endowed with the necessary factors of production. Thus, when the covid-19 negatively affected China's automobile manufacturing industry, the world collectively experienced a negative impact.

Increasing product variety and reducing costs

Cost-effective economies of scale are essential for business profitability. However, when the domestic demand is too low, a business may not profit from economies of scale (L., 2019, p.177). For instance, an automobile firm in the UK can produce 100,000 luxury vehicles for a 50,000 SUVs and 50,000 sports cars may incur losses. However, trading with another country with an equal demand ensures the company maximises its production activities. As a result, the UK exports 50,000 SUVs, sells 50,000 locally, and imports 50,000 sports cars from another state. As a result, both trading countries reduce production costs by operating at maximum levels and increasing vehicle variety.

Mercantilism

Mercantilism originated in England when countries traded with silver and gold. The theory's primary rationale is that countries trade with each other to maintain a positive trade balance. As a result, a country aims at exporting more goods than the imported quantity for a positive balance (L., 2019, p.163). However, the theory proposes government intervention to maximise exports and minimise imports. Government interventions may be in the form of

tariffs and quota restrictions. Thus, countries heavily invested in the automobile industry aim at exporting more manufactured vehicles for a positive trade balance.

Markets in Action

International businesses are affected by market demand, supply, and prices. A higher market price discourages buyers from buying more quantities while suppliers are motivated to sell more. An increase in prices encourages buyers to source for substitutes while it helps suppliers cover increasing production costs (FTE, 2020). Economists refer to this relationship as the law of demand. Therefore, changes in the pricing model stimulate buyers and sellers to adjust their purchasing and supply decisions.

Further, increased competition forces sellers to lower prices to attract customers in a competitive market. However, cooperation among suppliers leads to a monopolistic market which decreases competition. The level of competition depends on the number of buyers and sellers in the market. Government interventions help mitigate antitrust practices that may lead to market failure, such as exorbitant pricing (FTE, 2020). However, restrictive government interventions such as quotas and tariffs may discourage international trade. Therefore, governments should have attractive policies that encourage FDIs and other forms of international business.

Survival success factors for the industry amidst the pandemic

Megatrends and drivers of change

Technological advances

According to (ILO, 2021), it was projected that the automobile industry would invest a total of approximately 82 billion US Dollars in new technologies by 2020. Advanced manufacturing technologies include artificial intelligence, advanced analytics, the internet of things, IoT, and

cloud computing. Technology has also helped accelerate and conveniently monitor the supply chain in the face of an unprecedented covid-19 phase (Hensley et al., 2021). Automobile companies such as General Motors helped manufacture Ventec Life System Ventilators for the government using its advanced technology (GM, 2021). The development of robots that can work alongside humans helped substitute for limited human labour in production. Further, digitisation helps reduce the lead time in vehicle manufacturing.

New products and materials

Electric Vehicles and Automated Vehicles manufacturing have been rising due to increasing demand. EVs account for 2.2% of globally traded vehicles and are estimated to increase to 70% by 2030 (ILO, 2021). AVs use globally integrated Systems, sensors, big data, and AI to perform like human drivers. While the concept is on trial in developed economies, expansion into developing nations will depend on government policies and laws. Notably, new materials such as long-lasting lightweights resistant to heat and weather conditions promise more extended durability. As a result, firms may utilise environmentally friendly materials such as polymers and composites. Thus, it discourages overreliance on imported materials from other countries such as China. Therefore, companies continue with domestic manufacturing in case of unprecedented events such as the covid-19.

Conclusion

The covid-19 pandemic negatively affected the global automobile industry, with some countries, such as China and the EU, recording a sharp decline in revenues. EU states recorded an 82 billion dollars loss in automobile sales due to the resulting market effects in China as the leading spare parts importer. Business environment factors that affect internationalising companies include economic, legal, political, and social aspects. Porter's five forces, such as entry barriers, supplier and buyer bargaining power, and competition

from rivalries, may negatively or positively impact global business operations. Further, firms engage in international businesses due to different factor endowments, comparative advantage, and a positive balance of payments. The automobile industry survived and continues to recover from the covid-19 effects due to technological advances and new products and materials.

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