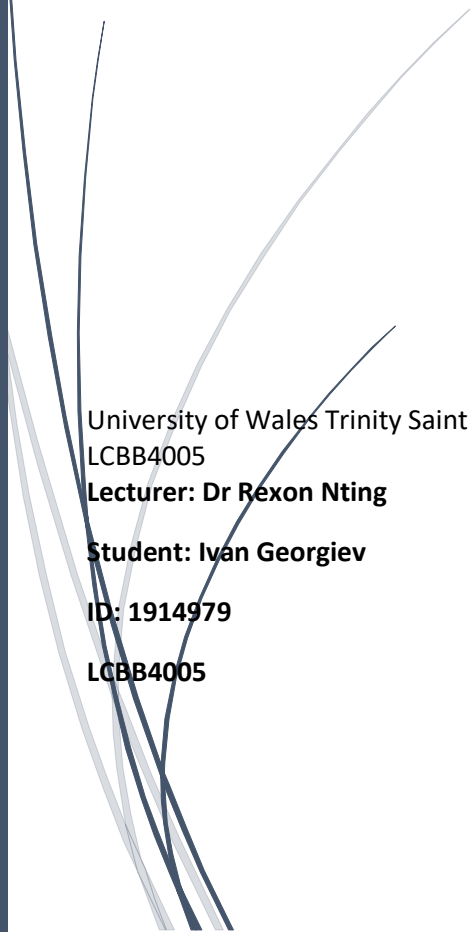


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8/27/2020

# Global Business Environment: Car industry

## Assignment 1

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## **Introduction**

The business environment in the car manufacturing industry is a complex process connected with many external and internal, macro and micro factors or forces. The forces that create a threat and opportunities they are shaping and reshaping the car manufacturing since the first mass-produced car ever made, till nowadays. We cannot talk about the business environment without mentioning the major forces: Political, Economic, Socio-cultural, Technological, Legal and Environmental factors or forces "PESTLE". Since the PESTLE or macro-environment can give us an understanding of external factors, we could not have a clearer picture of the business environment without mentioning the internal and micro factors. They are factors that becoming inside the organisations, and they are shaping and reshaping the culture, the vision and the goals of any organisation. The factors that influence the internal environment are value system, vision and objective, organisational structure, corporate culture, human resources, physical resources and technological capabilities. The main micro environmental factors are customers, competitors, employees, suppliers, shareholders in some cases, the media and social media. All of these factors and forces, and many others are creating the global car manufacturing business environment (Morrison, J 2017 pp. 25-30). In the past several years, the trends in the environment are changing in response to global pollution, and by the fact that petroleum is not infinity resource.

The car manufacturers slowly, step by step changing the cars as first they represent to the global market the hybrid cars who can run on petroleum or electricity to nowadays when the biggest brands representing to the world, emission-free electric cars (Westbrook, M, H 2007 pp. 181-182).

## **Implementation of Porter's five forces model**

For a better understanding of the car manufacturing business environment, I will use Porter's five forces model (Porter 1998).

- The threat of new entrants

The treat of new entrants in the industry is low. There have a couple of factors for it. For a new manufacturer will be very difficult to become a competiton of the biggest brands in the industry such as Toyota, Volkswagen, Hyndai, General Motors, Ford, Nissan, Honda, Fiat, Renault, PSA. According to Organisation Internationale des Constructeurs d'Automobiles, "OCIA" for the period of just one year 2016 – 2017 they have been produced over 40 millions cars ([www.OCIA.net](http://www.OCIA.net)).

- The bargaining power of buyers/customers

The buyer plays a significant role in the car industry a change in a trend in the industry can divers the needs and wants of the buyer, and every company that is not ready to satisfice this needs can suffer significant losses. We recognise two types of buyers companies and normal life's people. Till companies usually negotiating the prices of the product of their needs, the common person just easily changing the brand. That is why the competition between the car manufacturers is high, which leads to decreasing of profits for the competitors in try to attract new costumers or to regain the old ones. For the common person, the purchasing of a car is an expensive investment and that is why he is very sensitive about the quality and the price of the product. The price for a specific car model can vary depending on the demand from it. It is even possible to turn the profits into losses that is why the barging power of buyers is so significant (marketline, 2019 p.15).

- The threat of substitute products

The used cars are the biggest threat to the car manufacturing industry because of the high cost for a brand new car is something that not everyone can afford. That is why the demand for used cars in this industry is high, in an attempt to make higher profits many of car dealerships selling both new and used cars. Car manufacturers must be wary of the possibility of a dealership to agree to sell cars from rivals.

The other existing substitute products like mass transport and rental cars can not take big enough share of the segmentation to be considered as a threat. People still prefer to have their own automobile than to rent one or to use the mass transport. The threat of substitute products is low.

- The amount of bargaining power suppliers have

The number of suppliers and potential suppliers of raw materials for the industry is high. However, to change the supplier can be expensive and connected with a high volume of financial and time investments. Auto manufacturers require inputs-labour, parts, raw materials and services. The cost of these inputs can have a significant effect on profitability, which may lead to extremely high entry barriers. The suppliers depending on manufacturers, that is why the bargaining power is considerable low.

The most of key inputs required by car manufacturers are not made in-door by the manufacturer various inputs are fabricated by companies outside of the manufacturer. Some of the brands are trying to mitigate the supplier's power as they are trying to produce and to take control of the whole process in an attempt to decrease their costs and to increase their profits.

## 5. The intensity of the competitive rivalry

We know that in most countries all carmakers are engaged in fierce competition. Tit-for-tat price slashes, ad campaigns, and product developments keep them on the edge of innovation and profitability. Margins are low and pressure between rivals is high.

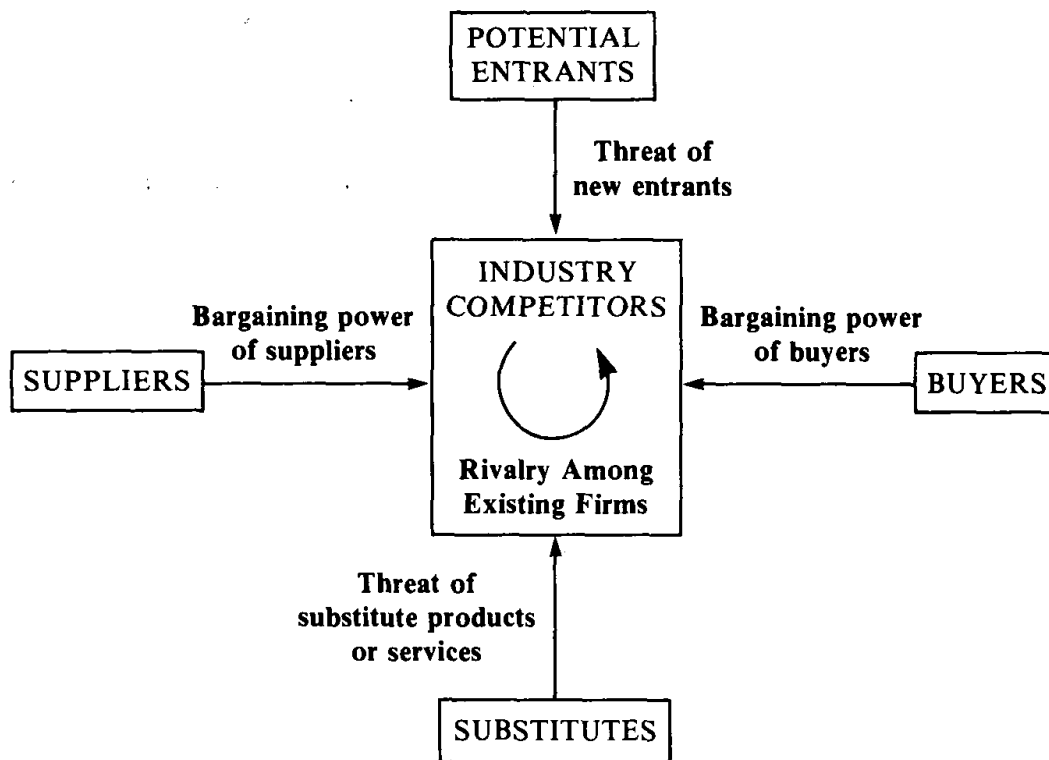


**FIGURE 1-1. Forces Driving Industry Competition**

(Porter, P (1998) Competitive strategy: Techniques for analysing industries and competitors figure 1 page 4)

#### Implementation of PESTLE analysis in car manufacturing industry

##### Political

- **Safety regulation**  
Governments across the world implement strict safety regulations in the automotive industry. These regulations regulate the manufacturing of motor vehicles, providing specific build requirements, such as seatbelts. The regulations affect those behind the wheel. This creates significant difficulties to launch a new business in the automotive industry, which served to the existing brands to maintain their place in the market
- **Emission policies**  
The government also have a great interest in lowering the emissions statistics of the new one and old one automobiles. This, along with other environmental concerns, is another regulatory boundaries for automotive manufacturers that they must go through (Department for transport, 2012).

##### Economic

- **Growing disposable income**  
As a widespread trend, individuals around the world are earning more and more money every year. Indicator for this is the World Bank GDP report (2019) it is showing the trend of constant growing of the GDP everywhere in the world. This means that the customers have

more money to spend on luxury items such as automobiles. This is one of the main factors, that is responsible for the increasing of demand for motor vehicles. This is surprisingly accurate in developing regions as an example of African states, where recent economic developments have made it possible for low-income households to manage to pay for their own car. This growing demand for motor vehicles will lead to more sales, and the automotive industry will become even more profitable (Mordorintelligence, 2019).

### **Socio-cultural**

- Cultural differentiations.

The market is influenced by socio-cultural forces. The car manufacturers should distribute vehicles based on the cultural preferences of their target population, culture to culture, people's style and choices of cars also vary. In result, if this some particular model will sell well in a market, it might not be as popular in the other. As an example, the most popular car in Vietnam is Toyota (Vietnam automobile manufacturers association, 2020) at the same time in Germany the most popular car is VW Golf (Bekker, 2019). Social trends also keep changing continuously, affecting the popularity of brands and models. Changing trends may some times make the older models obsolete or go out of fashion.

### **Technological**

- Self-driving cars

The future of the car manufacturing industry is in the self-driving cars companies like Tesla, Volvo and many others are representing to as a future without a driver seat in most of the cars. Till Volvo representing to us a future with self-driving cars, Tesla in the face of Elon Musk are ready to introduce the first in the world completely self-driving car by the end of 2020. (Cuthbertson, 2020). Without any doubts, this new kind of cars will change the entire vision over the industry.

- Improved safety

It is expected till 2030 on the roads around the world to have at least 10 million of self-driving cars. When this new kind of cars become part of our everyday life, it is expected the safeties of the passengers to be high as never before with a reduction of catastrophic till 90 percent, to be a passenger in a self-driving car will be one of the most safest places, where a man can be (Garret, 2017).

### **Legal**

- Copyright issues

Interestingly, the issue of copyright also affects the automotive industry. Certain features of a car — from its branding to even its shape — can be protected by copyright, trademark, or patent laws. It is not something that happens every day, but it still happens. The last year 2019, Jaguar Land Rover (JLR) won a court case against Jiangling Motor Corporation (JMC). The court has admitted JMC for direct copying of five features from Range Rover Evoque (Davies, 2019).

## Environmental

- Carbon emissions

Despite the governmental restrictions about carbon emissions, the cities in the world are still exposed on high levels of pollution which damages the health of the populations. A good example of this we have from a case study in 25 European cities where the observation of the level of pollution exceeding the World Health Organisation (WHO) recommendations (Pascal et al., 2013).

## Conclusion

Using a PESTLE analysis as a tool to understand the complicated processes that are shaping the car manufacturing industry, I do realise that this tool has its own disadvantages. The information that I need to be able to finish this analysis was too broad, and it was easy to get lost myself in the pool of information. Despite the biggest amount of data to find a relevant source was not something quite easy. When I managed to gather enough relevant sources, I do realise that different relevant information is leading to completely different conclusions, despite the fact that all of them were relevant. For me, as a student, it was a challenge to use this tool because it is needed to gain a deeper understanding of the whole industry and after then, I was able to put this tool in use. The most significant advantage of PESTLE analysis that I found was the opportunity to combine Porter's theory with PESTLE, and it really gave me the opportunity to study and analyse the industry.

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