



Environmental Analysis of Automobile Industry

Module: The Global Business Environment

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Introduction:

This report would be focused on analyzing the automobile industry and critically evaluate the challenges of their internal and external business environments. I would reflect on the challenges they encounter by doing SWOT and PESTLE analysis, utilizing Porter's Five Forces, Value Chain and their competitive advantages concerning their core values on sustainability. For this assessment, I have chosen the BMW group, who also owns Mini Cooper and Rolls Royce, and the analysis would be of the chosen brand.

The automobiles have been around for more than 150 years. Overall, a car manufacturer produces almost 60 million vehicles and provides employment to million people over the world. The automobile industry is one of the most heavily regulated industries and it has been around for more than 150 years. Every manufacturer needs to follow the safety and environmental regulations and of the respective regions they are based in. Every company must adhere to the environmental norms and therefore strive to reduce emissions from their products. In recent year, issues like congestions, rising oil prices, traffic and pollution are some of the reasons that have forced the car market to rethink their strategies, goals and objectives.

BMW was founded in 1971 and it is one of most-well know and leasing companies. It is known for its quality, efficient and innovation. Due to the constant research and development over the years, the company has managed to keep their sales and revenue. As one of the most popular car brands, BMW has several competitive advantages which include brand quality, development, sales and distribution and production network.

Referring to the Potter's Five Forces, we will analyze BMW's organizational model. Potters five forces –is analysis which was developed in 1979 by Michael E Potterer of Harvard Business School. The analysis is used in understanding the strength of an organization's current posting and strength of a position that an organization may look to move into. The five forces are: supplier power, buyer power, competitive rivalry, and threat of substitution, and lastly threat of new entry.

Barging power of suppliers:

As mentioned, BMW is a leading brand with an established market presence and partnering it is profitable for any of the suppliers. The BMW group works with 12,000 suppliers located in 70 countries. They have partner up with many countries – for example they have partner up with Great Wall Motor of Chine to produce electric cars locally.

Bargaining power of customers:

Bargaining power of the customers is an important factor affecting the sales and profitability of any large and global business.

There are several factors that affect the bargaining power of customers. In recent year, the bargaining power of customers has grown which is due to increased competition as well as higher regulation, changing consumer trends and low switching costs. The customers are well informed and have done extensive research before making a purchase. Also, the government has put a higher priority on the level of regulation, which has led the focus on the product to be more about quality as well as the safety of the passengers. Every brand is trying to grow its market share and customer base. Every brand, even the BMW rivals are investing into heavy research on how the products could be improved as well as marketing. The focus now is more on the customer journey and experience rather than just the quality of the products. In the case of BMW, some of the leading factors that moderate the bargaining power of customers are brand equity, product quality, technological innovation, and customer experience.

Threat of substitutes

This is an important factor which drives the demand and profitability to any automobile. Some of the rival brands of BMW are Volkswagen, Audi, Land Rover, Toyota, Ford, Mercedes, Aston Martin and Lexus. It is known that BMW specializes in stylish cars and owning a BMW is a statement of class. Compared to the rivals, BMW offers a better customer experience than most of the substitutes. The brand also has a loyal customer base, who prefer the safety and comfort the brand offers. Overall, the threat of substitutes for BMW is moderate.

Threat of new entrants

The threat of new entrants in the automobile industry is very low which is because of the higher entry and exit barriers. To survive on the market, several of the rivalry brands have formed partnerships to survive the growing number of challenges in the international car market. The main barriers that could possibly prevent new companies from entering the market include fierce competition, large capital investment, need for skilled human resources, technological barriers, and brand equity. If a new brand decides to enter the market, the brand will need a big capital to build a strong source of competitive advantage. They would also have to invest a lot of money into research, marketing, and brand recognition, as well as in production, supply, and distribution. All these factors might make it difficult for a new company to enter the market, as the industry environment has become very challenging. In addition, BMW has one of the best technicians, engineers who help in developing new model cars and more innovative methods.

Competitive rivalry

Previously, I have identified few competitors of BMW, they include brands like Audi, Mercedes, Skoda, FCA, Ford, Toyota, Tesla and Land Rover. Even though it is quite difficult for new brands to enter the market, these brands are well-established on the market and invest a lot of money into research, development, and technological innovation. More, with the competition growing, the brands are looking for create partnership and collaborations. For example, BMW are in a partnership with Great Motors of China. These help the brands to establish their position on the market, as well as to penetrate new markets. Each company is looking for a way to maintain a leadership position.

According to this Porter's Five Forces Analysis, BMW are maintaining a strong image associated with reliability, interesting experience, and new products. BMW spends a lot of money on marketing to increase awareness and attract more loyal customers.

What is PEST analysis?

A PEST analysis is a tool for understanding market growth and is used for direction for a business as businesses measurement tool. It involves monitoring the changes taking place in the environment and forecasting the future position. PEST is made from four key factors: political, economic, social, and technological factor.

Political factors

Political factors could include government rules, regulations and security that would be applied to the automotive industry. In recent years, car companies should be more aware of the environment issues. There has been more demand for regulation of the carbon footprint and there were new laws and regulations introduced by the EU. In addition, taxes and foreign policies are critical factors that affect the automobile industry, and they can determine how successful the organizations would be on the market. Another political factors which need to be considered is trading in countries like Russian and China, as it can have a negative effect on BMW due to the consumer's spending patterns and investing in this country could be a risk.

Economical Factors

The economical factors could include exchange rates, global growth, and business setting of the industry. In the last five years, the exchange rate for the Euro has depreciated significantly which is a benefit for BMW as it would be cheaper to export products to international markets like the USA. In addition, the inflation is an important factor that BMW needs to consider when carrying out operations.

Social Factors

BMW has presence in more 140 countries, each one with different cultures and values. The social-cultural patterns could predict the consume capacity and the spending patterns which could affect how the industry operates. The BMW group has 3 divisions i.e., the automotive segment, the motorcycles, and the financial services. It is very important to understand the social factors which influence people's choices and include the beliefs, values, and attitudes of society. Understanding the changes in this area can be crucial. It is very important that such factors as changes can impact purchasing behavior consumer attitudes to your product & industry – environmental issues, the role of women in Society, attitudes to health, attitudes to wealth and age.

Technological factors

As mentioned before, the BMW group is multi-million company, which invest a lot of money and resources into research and development and the technology factors is one of the many factors which effect the overall operations of the company. BMW was able to gain a competitive advantage in the research areas, which helped them with creating dual fuel engines and hydrogen driven cars. Due to the

research done, BMW were able to establish that there is demand for environmentally friendly solutions. They were able to find that their consumers are concern about the environment they live in, and they are looking into way to solve this. Moreover, the company is constantly looking to developed more creative and sophisticated designs to overcome the decreased margins within the automobile industry.

What is SWOT Analysis?

On the other hand, SWOT analysis is used to identify strengths, weaknesses, opportunities and threats for a project or for overall business performance.

Opportunities – The economy and environment changes could lead to increase in purchasing powers as well as growing of exciting markets.

Threats - New laws might be introduced in regard to the gas emission and safety of the passengers. Also, changed of technologies could have an influence as well as the global economy downturn, development of hybrid technologies might threat the manufactures.

Strength – Being an established well recognized brand BMW and having a loyal customer base could be a strength when a new organization enters the market.

Weakness – Other organized might develop faster in terms of technologies before this organization decides to make the move.

References:

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