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PROGRAM:BA BUSINESS MANAGEMENT

SUBJECT:THE GLOBAL BUSINESS ENVIROMENT

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Environmental Analysis of an industry

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1.1 INTRODUCTION

This project discuss about automobile industry and cover large part of economy. Various factors affect revenue of industry. Slovakia was recent inaugurated in automobile industry. Many government officers has visited this event. This industry employed 3500 workers and been shifting from west to east (Grant, 2016). There are various force which have impact on automobile industry. These forces can be defined as political, economical, social, technological, legal and environmental factors. Al these are external factors that affect industry. According to this case, there are several factors which affected production of vehicles. Srigid de Vries spokeswomen of automobile manufacture in Brussels suggested to stay close to customers and analyse the requirement. Further it discuss about the Porter’s Five Force as an effective tool to deal with competition in market. Automobile industry face different threats, threats of new entrans, competition from substitutes, bargaining power of suppliers, bargaining power of buyers and rivalry along the competitors.

A)Global automobile industry using PESTEL

Automobile industry has commenced operation since 1890s in Europe. This sector has grown and has become the most important part of economy. Revenue of this industry depends upon several factors. Financial crisis has largely affected in this sector. After global recession, sale of automobile industry has increased (Kishita, and et.al., 2016). This sector manufactures automobile globally. After manufacturing they deal with selling and marketing of these vehicles. This industry also deals with selling and marketing cars. Czech Republic has doubled their production from last few years. Eastern Europe has become the world’s biggest car manufacturing market. It has increased the production by 33 percent in last decade. According to Price Water House copers production in Russia has increased. Car making countries have grown and expanded gradually over the years. Innovation is very significant in the auto mobile industry. Cars can be differentiated on the basis of innovation. Automobile sectors use different technologies to make their products unique from other vehicle manufacture. They also focus on producing environmental friendly and fuel efficient vehicles. Automobile industry has the pressure to manufacture cars that has less carbon release. All major companies like Volkswagen, Volvo and Audi etc. are trying to bring more fuel efficiency vehicles (Nallusamy and et.al., 2016). External factors adversely affect automobile industry. Volvo has suggested an idea of electrical vehicles. They

are trying to launch fuel efficient vehicles in the market. Below is the PESTEL analysis of automobile industry. There are different factors that put their impact on automobile industry. These factors help in making the strategy for firm. Some of them are as follows:

Political factor in automobile industry

This factor plays an important role in influencing managerial decisions in automobile industry. Political environment cannot be predicted. Government develops political factors that have their impact on this industry (Nguyen and Hens, 2015). Different countries have different political effect. Government encourages automobile industry to manufacture low smoke emission vehicles. There are high demand of environment friendly vehicles. UK government is providing subsidy to produce the fuel efficient vehicles. They impose rules and regulations which have adverse effect on the revenue of Vehicle Company. There are different technologies that can be used to manufacture low smoke emission vehicles. Political factor is beyond the control of business. Companies have understood the importance of producing environment friendly vehicles (Ohno, and et.al., 2015). They have shifted to their manufacturing base to countries which is lenient in wage regulation. Companies like general motors, Toyota, Volkswagen, Hyundai and KIA have shifted to such regions. Trava plant has announced cutting 11000 jobs in the Western Europe. This move is closing many automobile industries in Ryot England. Volkswagen has stopped manufacturing cars in Brussels. Eastern Europe is the labour cheapest region. Car Company has shifted to this region to increase their profitability.

Economical factor in automobile industry

This force is very important in context of automobile sector. Economic crisis has adversely affected in this sector. Sale and manufacturing of vehicles have gone down during poor economic condition. Demand for luxury vehicles was hardly hit during economic crisis. Taxes on vehicles were increased. This kept car prices high in market. Developed countries has high demand of luxury vehicle. Customers of developed market have high purchasing power. People with good purchasing power can buy high priced variant cars. Developed and underdeveloped countries demand for low price variants car. Economic conditions have their impact on the profitability of auto mobile industry (Rawlinson and Wells 2016). High car prices in west encourages customers to shift from big cars to compact cars. Eastern Europe has speciality in producing low variant cars, which are purchase by large segments of people. During economic crisis, countries depend on purchasing power of customers. Car Company focuses on manufacturing the low car cost. Economic vehicle cost covers a large segment of market. Automobile sector of central European has offered job to 284507 people in 2004. Largest challenge faced by Western Europe was shortage of qualified labour. This was reason behind decline in job (Rugman and Verbeke, 2017).

Socio cultural factor in automobile industry

Market is deeply influenced by social factors. People preferences and change in cultural trends affected automobile industry. Producers of vehicle motors have adopted these changes in manufacturing process. Volvo Company has launched a new car model every year according to customer's choices and preferences. Satisfying their customers is the basic responsibility of auto mobile industry. Company becomes more specific about shape and colour of cars. They design vehicles in the style preferred by customers. SUV's have high demand in certain market where as, some customers would prefer Sedan. Automobile industry considers various socio culture factors while targeting customers. People's style and preferences differ from culture to culture. Some models are popular in market and have high selling rate. Popularity of brands is affected by the social trends. These trends continuously change (Schaltegger and Wagner, 2017). Some styles and models have become absolute.

Technological factor in automobile industry

Innovation in technology is the most important factor that determinate market share of automobile industry. If company wishes to increase their market share, they need to be innovative. Investors make a huge investment in technological development of company. Brands like Toyota, Hyundai, Skoda, etc. invest their capital in research and development. They manufacture environmental friendly cars with low smoke emission. Toyota has decided to launch driver less car in the future. Company like Volvo has launched electrical car which is environmental friendly (. Shao and et.al., 2016). They take actions to protect the environment from harmful pollution caused by vehicles. Technological innovation has become the basis of differentiation in automobile industry. Customers have shifted their preferences towards fuel efficient vehicles. They have become more concerned about the environment. Sale of fuel efficient vehicles has increased from the last few years. Technology is an important factor that affect sales and profitability of automobile industry. Volvo is doing research of flying and driver less cars. Customers are now aware of latest technology. Auto mobile industry has to keep pace with technology. They must adopt the latest technology and features in their manufacturing process.

Legal factors affect automobile industry

Law makers are concerned about the safety of automobile industry. They impose different rules and regulations to increase the quality standard of vehicles. Manufactures have pressure to follow all the rules and regulations mentioned by law. Manufactures of UK cannot increase the prices without government approval (Zanchi, and et.al., 2018). Law affects the profitability of automobile industry. Different countries have different laws which are related to quality and safety of vehicles. Government has imposed the pollution laws. Company exports their vehicles overseas to pass pollution control test. Safety of product has a huge impact on the sale of product. Company must focus on the passenger's safety. To avoid accidents, government make rules and regulations to look after the safety of customers. To deal with the international market, company has to follow several rules and regulations.

Environmental factors affect automobile industry

According to environmental act, automobile industry must produce vehicles with low smoke emission, Which are related to environment. Automobile industry is concerned about carbon emission in environment. These carbon emission affect environment adversely. Automobile industry manufacture vehicles that has low smoke emission in order to look after environment. government offer tax subsidy to company that produce environmental friendly vehicles. UK government motivate and encourage manufacture to focus on production of low smoke emission vehicles. vehicles have to pass certain pollution test. Government has made pollution law much stricter.. Vehicles that pass pollution test can be sold in market (Grant, 2016). Government has made laws and rules to focus on pollution control. Automobile industry has to consider environment before manufacturing cars. According to statistic population of Europe is gradually increasing. Governments has taken necessary measure to minimise pollution in environment.

B)Global automobile industry using Porter's five force

Automobile industry consist of large part in economy. It is multi billion dollar industry. Competition has gradually increased in this industry. Many big brands were exiting from market. Government has made strategy for survival of these brands. After recension in past economy, now automobile industry is growing rapidly. Company design products according to desire of customers. They are concerned about passengers safety. Automobile industry manufacture environmental friendly products. There are various factors that affect vehicle industry. Environmental factors play significant role in this industry. To stay competitive they must produce fuel efficient and low smoke emission cars. Porter five forces theory was developed by Miachel E. Porter. There are various factors that affects over all profitability

of business (Kishita, and et.al., 2016). Five Force that affect competition and profitability of Automobile industry are as follows.

Threats of new entrants

It is difficult for new brands to enter in the market of Automobile industry. This sector require large investment. Initial arrangement of huge capital is difficult for entrepreneur. Generally company having huge capital and investment will enter market. They invest funds on recruiting skilled staff, manufacturing facilities and distribution networks. firm entering in market face competition from existing brands. Volvo company use innovative techniques to create product differentiation. Innovation give opportunity to cover large market share. New entrants face problems in establishing their brand name and reputation. Existing firms has competitive advantage of brand image. New brands focus on quality and engineering of products. They find great difficulty in arranging raw materials. Volvo company operates in economies of scale. Government has imposed high rates of tax to discourage entry of foreign brands. Various factors reduces threats from new entrants (Nallusamy and et.al., 2016). There is no threat to Volvo company from new vehicle manufacture. New entry require time to gain market share this will give opportunity to Volvo to gain popularity.

Competition from substitutes

Automobile industry has threat from substitutes. Rapid increase in fuel price have pushed customers to use public transport. Taxis, buses and trains can not provide convenience as much as own vehicle does. If people miss public transport they will have to wait for another one, while people having own vehicles can go anywhere anytime. These alternative modes do not require any maintenance. Having personal vehicle is matter of prestige and convenience. . Some people find economy to travel from public transport. Mass production of automobile by Volvo has increased customers reliance. These factors moderate threat of substitute. Volvo is largest company to manufacture fuel efficient and environmental friendly car. They have launched new engines to increase speed of vehicle. Price of vehicle will determine willingness of customer to buy that car or not. Economy value of car will attract large segment of people (Nguyen and Hens, 2015).

Bargaining power of suppliers

This power depends on number of potential suppliers in automobile industry. Designing of car or vehicle requires large amount on investment. They have less number of suppliers. Threat from bargaining power is suppliers weak. Automobile industry generally do not switch suppliers because they get plenty of raw materials. Volvo company depends on those suppliers to get raw materials. Many automobile industry outsource there parts. Bargaining power of supplier is average it in neither low or high. Volvo manufacture outsource those parts to various entities. Automobile suppliers has affect on production and supply of vehicles. Volvo company decide price according to their own profitability requirement. Monopolistic situation can be created if manufacture rely on one supplier. Rivals explore different opportunity to gain competitive advantage.

Bargaining power of buyers

Bargaining power of buyers refer to customer ability to negotiate prices of product. Customers has power to walk away from product price. If they want they can purchase product from elsewhere. Customers has right to compare price and select profitable deal. They can influence price given by dealers. Customers can easily switch dealers (Ohno, and et.al., 2015). Individuals, private companies and government agencies buy automobile. Buyers can bargain about price of vehicle and can easily change brand. They are very sensitive to price of products. According to this factor bargaining power of buyers have strong effect. Volvo focus on building customers loyalty and brand image. They offer

price better than competitive prices. Customers gather important information about product using internet. In case of Volvo customers purchase vehicle through credit facility. Cost and design help customer to identify product in market.

Rivalry among competitors

Rise in foreign competitors has created complex situation for firms cooperate. Barriers of entry and exist of firms is very high. If firms wish to leave market they will have to bear loss. This industry has high level of customers loyalty. They do not wish to change switch brand. Automobile industry is very large and mature. Customers loyalty make competition more intense. This help in targeting large segment of customers. Different automobile company target different market segment. Volvo, Volkswagen, Hyundai compete against each other. They design vehicle according to customers safety. Auto industry has strong threat from competitive rivalry. Number of competitors has increased in this industry (Rawlinson and Wells 2016).

According to above automobile industry is very unattractive for new entrants. They will face different threats but still they have opportunity to exist. In case of Volvo an automobile industry seems attractive because this is existing company. Customers demand for new innovation and style. These industry compete with each other in terms of price and quality. Winner of this competition will be those, which can fulfil customer requirement. Volvo company has proposed design of electrical car which is fuel efficient and environmental friendly. Design and specification of car is attractive. Companies develop strategy to fit according to different culture. Porter's five force help in developing strategies that will benefit automobile industry over rival firms. This tool analyse attractiveness of Volvo company. This identify competitive position of automobile industry (Rugman and Verbeke, 2017).

1.2 CONCLUSION

This project conclude about global automobile industry. There are several factors like political, economical, social, technological and legal which has impact on this industry. Government take decisions regarding manufacture of vehicles. They assure that vehicles are manufactured according to quality standard. Automobile industry design vehicles as per customers demand. Buyers are now aware of technology. This affect sale and profitability of company. Customers generally demand for fuel efficient and environmental friendly vehicle. Automobile industry follow all rules, regulations and law. Government check pollution control of vehicles. All these factors adversely affect industry. Porter's five force is a tool used to analyse effectiveness of automobile industry. This industry resist entrance and exit of new firm. Company develop strategy to deal with competition in market. They design vehicle according to customers requirement. They have ability to negotiate with price.

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