

● Car Production Surges in Eastern Europe

The European auto industry is systematically utilising low wages in eastern Europe to slash wages across the entire continent. They are increasing the tempo of outsourcing to eastern Europe eliminating jobs in western Europe, and using this to drive down wages and impose poor working conditions. Currently, approximately one fifth of Europe's vehicles are produced in eastern Europe. According to the consultancy firm Roland Berger, 15 auto concerns operate 12 plants there with a total annual capacity of 3 million vehicles. This tendency is rising sharply. The number of vehicles produced in Romania rose by 21 percent to 400,000, the fastest increase of any country globally.

The auto companies are building entire factories in Poland, Slovakia, Hungary, Romania, Germany, Czech Republic. Since 2011, VW has carried out the labour-intensive process of assembling all cars below the Golf class outside of Germany.

In line with this, VW subsidiary Skoda is expanding its plant in Kvasiny, Czech Republic, for a new model, likely to be a larger SUV. Skoda will also build a model for VW's Spanish brand Ceat, according to VW CEO Martin Winterkorn. Ceat's Spanish plant lost the internal competition within the company for the relevant contract.

The successor model to the VW Transporters Crafter will be manufactured in Poland. When it was announced that the cooperation between Mercedes and VW to

manufacture both the Transporter Sprinter and Crafter would end in 2016, the IG Metall trade union had hoped that thereafter the Transporter model could be manufactured at VW's Hannover plant. However, management awarded the contract to Poland. A new plant is to be built for this in Wrzesnia, near Poznan, providing 2,300 jobs.

Audi, which is owned by VW, has also significantly expanded production in eastern Europe. With more than 10,000 employees and almost 2 million vehicles manufactured last year, Audi Hungaria includes the world's largest engine factory. Audi's Hungarian division produces the full range of VW vehicles. In addition, the Györ plant in Hungary manufactures the Audi A3 and Cabrio from start to finish, without any collaboration with factories in Germany. In Györ, 125,000 vehicles will soon be rolling off the production line annually.

General Motors' subsidiary Opel produced 600,000 cars in its Hungarian plant at Szentgotthárd last year, and is planning an investment of around €500 million to increase capacity to 750,000 units. While its Bochum plant will close this year with the loss of 3,300 jobs, the Gliwice plant in Poland is to be expanded to take over the production of the Astra model from Rüsselsheim in Germany. Daimler is encouraging its plants in Germany, Romania and Hungary to work in "cooperative production." In the process, production is being outsourced from German factories step by step to countries with much lower wages.

Since 2011, Ford Europe has not only manufactured cars in Cologne, but also at the Romanian plant of Craiova. Both locations are currently competing over the Fiesta model, which has been produced in Cologne since 1979. If the Cologne workers do not accede to pressure from management and IG Metall to accept deteriorating working conditions, production of the Fiesta will be

awarded to the Romanian plant from 2017. Ford has already shut down three plants in Belgium and Britain.

Auto manufacturers are being drawn to eastern Europe by the limited rights and low wages of eastern European workers. Audi CEO Rupert Stadler gushed, “An hour of labour in Hungary costs €13, in Germany, depending on the activity, between €40 and €52.” In Bulgaria and Romania, they are estimated at less than €5, and in Ukraine they are just as low.

With the exploitation of cheap labour in eastern Europe the auto concerns are striving for profit rates of 10 percent. The financial director of Austrian parts supplier Magna, Vince Galifi, stated, “We expect rising operating returns the further east we move.” According to the European Auto Producers’ Association (ACEA), 3 million people in Europe are directly employed by automakers, and almost 13 million in the sector as a whole, including the supply industry. Their incomes and jobs are increasingly under threat if they continue to be played off against their counterparts in eastern Europe.

Industry environmental factors play an increasingly important role and so automobile manufacturers cannot rely on just safety and reliability to stay competitive, especially given the maturity of this industry. Let us now examine Porter's five force model (Porter, 2008) to discuss threats and determine the attractiveness of the industry.

Threat of New Entrants

There are absolute high barriers to entry in this industry, making the threat of new entrants low. Very few new players or entrepreneurs are capable of venturing into the automotive industry because it requires a high capital investment to set up manufacturing facilities and a distribution network. In addition, the fact that existing multi-national major competitors benefit from economies

of scale and scope, makes it very difficult for a new entrant to offer competitive pricing.

Finally, because the issues of safety, reliability and durability are so salient, and because buyers base their impressions of a model on the manufacturer's previous performance on these issues, a new entrant will have extreme difficulty competing. It takes many years for a new entrant to build a strong enough reputation to be competitive. All of these factors make the threat of new entrants in this market very low.

Competition from substitutes

The threat of substitutes on the other hand does exist. Increasing fuel prices have been pushing some urban drivers to use public transportation. Most vehicle owners still agree that the convenience of using a personal vehicle offsets increases in fuel prices, however if this trend continues and automobile manufacturers are not able to provide a more cost-efficient solution, this threat will increase.

There is no realistic substitute to motor vehicles with the exception of large scale transportation that railways provide. The evolution of consumer reliance on motor vehicles began with the mass producing of automobiles by Ford in 1910. (Grant, 2008, p. 41) Starting almost 100 years ago, people worldwide became more and more reliant on motor vehicles. With a steady supply of motor vehicles becoming available after World War II, transportation by automobile has surpassed other forms of personal travel and the movement of manufactured goods. As a result, we will qualify the threat of substitutes as moderate.

Bargaining Power of Suppliers

The power of suppliers is mitigated by the number of existing potential suppliers in this industry, but switching

costs are high because establishing part designs and specification requires a fair initial investment. On the other hand, there is little threat that these suppliers will integrate forward. Auto manufacturers require inputs-labor, parts, raw materials and services. The cost of these inputs can have a significant effect on profitability. Ford was depended on different suppliers for various parts but soon it had the problem with the quality of equipments and compatibility of parts made by different manufacturers became too expensive as it was costing more comparing to buying from suppliers.

Bargaining Power of Buyers

Buyer power refers to the ability of individual customers to negotiate prices that extract profit from the seller. Private individuals, commercial companies and governments are the primary buyers of motor vehicles.

Dealers are another part of the buyer equation. Dealers-buyers typically purchase their car inventory from the manufacturers through special financing. In the case of Ford, dealers purchase their inventory through Ford Motor Credit. If dealers do not buy inventory from the manufacturing plants, Ford must contend with excess supply.

Rivalry among Competitors

Different companies are providing different incentives to attract customers to purchasing their own vehicles. Ford in the past was very successful due to their advantages relating to volume and scale and it was anticipated that they would become the biggest player in the industry taking the place of General Motors. However, due to the actions taken by their arch rival, General Motors, Ford continues to remain in second place (Taylor III, 2003) Ford experienced adverse publicity due to the tire scandal and also the poor marketing.

References: Grant, R.M (2008). Cases to Accompany: Contemporary Strategic Analysis (6th Ed.). Malden: Blackwell, pp. 47-48.

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