

The Global Business Environment

Assessment 1

Environmental Analysis of Automobile Industry

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Introduction

This report includes a brief environmental analysis of the British automobile industry and the British automobile brand Aston Martin's position in this industry. Various strategic decision-making and business environment analysis tools such as Porter's five forces, SWOT analysis, PESTLE analysis and value chain model have been discussed in this report alongside the competitive advantages relating to sustainability.

Organisational background

Aston Martin is a British independent automobile manufacturer that mainly specialises on luxury cars, grand tourers and sports cars. Founded in 1913, the company now sells its cars worldwide (Autocar, 2021). However, the growth of the company has been very positive in recent years. Currently, the company only employs 3000 employees, which gives a rough idea about the size of the organisation compared to other automobile brands. Last year, the company's operating income was –£224.9 million and its net income was –£410.5 million (Earey, 2021). According to the market experts, the brand has been falling out of favour in the market due to the growing competition and the lack of innovation and novelty factors in its cars (BBC News, 2021). Between 2019 and 2020, the losses of the company had quadrupled. It is argued that the economic crisis and the pandemic were responsible for the consecutive sales decline. However, the company is planning to develop new cars with innovative features which could be a turnaround Aston Martin in the years to come (BBC News, 2021).

Industry background

The automobile industry is one of the significant contributors to the UK economy adding £15.3 billion to the economy. It is currently worth over £78.9 billion in turnovers (SMMT, 2021). The total trade revenue of this sector was £74 billion last year (Mordor Intelligence, 2021). There are currently 7 premium car manufacturers, 5 design centres, over 60 specialised automobile manufacturers, over 2400 suppliers, 11 engine manufacturers, 6 mainstream automobile manufacturers and 20 R&D centres based in the UK (SMMT, 2021). Thus, the economic contribution of this sector is quite significant. Nissan currently ranks as the largest car manufacturer in the UK with 245,600 units produced (Mordor Intelligence, 2021). Further insights on the industry can be obtained by using different strategic management models and theories.

PESTLE analysis

PESTLE is a tool for analysing the factors of the macro-environment. In other words, it helps analyse the external factors of the business environment (Brooks and Weatherston, 2000). The term PESTLE refers to the political, economic, social, technological, legal and environmental factors of the business environment. The following PESTLE analysis provides insights on the external business environment in the British automobile industry.

Political factors

The British political landscape is fairly stable if compared to many other parts of the world. The political stability of the UK currently stands at 72.64 % in confidence interval, which is closer to the upper bound status (Trading Economics, 2021). However, as of lately, the UK government has been criticised for not handling the pandemic situation well enough, which led to billions in losses for businesses in different sectors (CIPD Factsheets, 2021). As for Brexit, the UK government has been able to reach a Fair-Trade Agreement with the EU, which will prevent any worst-case scenario for British importers and exporters. However, it does take longer for British companies to transport products cross borders into the EU region. By 2023, the corporate tax rates could be increased, which would affect the financials of the companies (CIPD Factsheets, 2021).

Economic factors

The UK economy ranks fifth in the global scale. The GDP is expected to recover and attain 4% growth this year and an 11% growth in the following year (CIPD Factsheets, 2021). Therefore, the growth of the automobile sector could be in line with the growth of the economy. However, the inflation rate remains a concern (Trading Economics, 2021). The current inflation rate is 2.19% and is expected to reach 2.65% next year. Thus, people's purchasing power will reduce. Luxury product market might take a hit (CIPD Factsheets, 2021). However, the global luxury car industry is currently growing at the CAGR of 5%. It is valued at 400 billion pounds and expected to reach 550 billion GBP next year (Trading Economics, 2021). The demand for luxury electric cars is also growing at a decent pace (SMMT, 2021). The supply factors are also in favour given the technological advancements taking place and the UK entering favourable new trade agreements entered.

Social factors

The social factors include the trends in the consumer market and consumer behaviours. For instance, British consumers are now preferring eco-friendly electric vehicles over the regular engine vehicles (CIPD Factsheets, 2021). Therefore, companies are under pressure to cater to the consumer needs with eco-friendly and sustainable vehicles (BBC News, 2021). The energy usage and consumption also remain key factors. The consumers would be motivated by innovative features that are also functional and aimed at productivity (Earey, 2021). Therefore, the businesses in the industry need to cope with the dynamics within the consumer market. The positive side of the social factors is that the British consumers are getting more inclined towards premium cars recently. This indicates a decent growth of the sector.

Technological factors

As mentioned earlier, functional technological features motivate modern consumers to purchase automobiles. Evidence collected from the case studies of Tesla, Toyota, Nissan and many others confirm the statement (BBC News, 2021). Auto-drive features, additional safety features, sensors for preventing accidents, motion sensors, functional touchscreens etc are commonly expected by the consumers (CIPD Factsheets, 2021). Moreover, the consumers of premium automobiles expect AI features and vehicle durability. Thus, the technological factors are influencing the industry dynamics.

Environmental factors

The automobile companies are expected to develop eco-friendly infrastructure and manufacture environmentally friendly vehicles under the Paris Agreement. This creates challenge for automobile companies that were previously well-known for their traditional built and regular engine vehicles (BBC News, 2021).

Legal factors

The legal factors influencing the industry dynamics include changes in labour laws, environmental regulations, tax laws and other regulations (BBC News, 2021). The changes in labour laws will create shortage of flexible and cheaper EU workforce in the automobile manufacturing plants. The environmental regulations create pressure over companies to adopt eco-friendly business practices and product designs (Autocar, 2021).

The findings of the PESTLE analysis should help Aston Martin plan suitable strategies for the current business environment. Political factors, legal factors and environmental factors remain challenges for the company. Technological and social factors can be utilised for pursuing opportunities. The economic factor could facilitate sales recovery, if the necessary strategies are implemented.

Porter's five forces

Porter's five forces framework helps analyse the competitive environment. It helps analyse industry attractiveness by looking at the forces of market competition (Baron, 2013). The following is the Porter's five forces analysis for Aston Martin.

Threats of new entrants: (low) The automobile industry is a heavy capital-intensive sector. It also requires sophisticated engineering knowledge (Autocar, 2021). Therefore, the market entry barriers are high. This keeps the threats of new entrants low.

Threats of substitutes: (High) The substitutes of luxury cars would be regular mainstream vehicles (BBC News, 2021). The sales of mainstream vehicles have grown substantially in recent years, partly because of the fact that the value propositions they offer are not too far away from the values offered by Aston Martin (Autocar, 2021). It is safe to say that the threats of substitutes are quite high for Aston Martin.

Threats of direct market rivals: (High) Some of the main competitors of Aston Martin include BMW, Audi, Ferrari, Mercedes Benz, Porsche, Lamborghini and Bentley. These brands control the larger shares in the premium automobile industry (BBC News, 2021). The global market share of Aston Martin in the luxury segment among these other brands is less than 8% (Market Watch, 2021). Better built, more popular designs, range of unique features and brand positioning are some of the factors at which the market rivals do well in the automobile sector (Market Watch, 2021). Therefore, the company should focus on developing competitive advantages with its resources.

Bargaining power of suppliers: (High) A major proportion of the factors of production in the automobile sector are imported from the EU region. After the Brexit, the UK companies no longer have the free access to the EU single market (Market Watch, 2021). This puts the EU based suppliers at better position in bargaining. Furthermore, some of these suppliers specialise in the

automobile parts needed for manufacturing Aston Martin cars. Therefore, the bargaining power of suppliers is high (Earey, 2021).

Bargaining power of buyers: (Low) The buyers are usually not aware of the technical sides of the products. They are also usually unaware of the industry know-how, which prevents buyer forward integration (Market Watch, 2021). Therefore, their bargaining power doesn't pose threat to the company.

SWOT analysis

SWOT analysis provides insights on the capabilities and challenges of a company. The following is the SWOT analysis for Aston Martin.

<u>Strengths</u> 1. Known for manufacturing heavy duty cars. 2. Recognised for its placement in James Bond movies as the go-to vehicle of the protagonist. 3. Targets premium consumer segments with high quality propositions. 4. Global market operations. 5. Well-known brand.	<u>Weaknesses</u> 1. Less novelty factors 2. Comparatively less innovative than other premium car brands. 3. Poor financial performance. 4. Average workforce and management. 5. Lack of ambition. 6. Lower market share.
<u>Opportunities</u> 1. Opportunities to transition into sustainable manufacturers given the R&D capabilities of the company and the production plant capabilities. 2. Opportunities to reinvent the brand with new designs and value propositions targeting the more younger consumer segments.	<u>Threats</u> 1. Threats of losing more market share in the years to come, if the company doesn't innovative its product lines. 2. The poor financial performance can severely affect the liquidity and assets health of the company. 3. The brand might lose its appeal due to the lack of novelty factors.

Table: SWOT analysis (Earey, 2021) (BBC News, 2021) (Autocar, 2021)

The findings of the SWOT analysis suggest that the company faces the threats of losing market share and getting into financial problems, if it fails to accommodate new strategies, innovation and

development. The company should also focus on strengthening the capabilities and skills of its workforce.

Value chain

The value chain model describes the range of activities involved in the production and marketing of a product (Brooks and Weatherston, 2000). The following is the value chain analysis of Aston Martin.

First of all, the company procures the inbound logistics from several suppliers located in both the UK and in the EU. The quality and cost of the inbound logistics contribute to the business success in a very significant way (Autocar, 2021). Once the inbound logistics are warehoused, the company starts the manufacturing process. It is to be noted that the company doesn't follow a lean manufacturing strategy. By following the lean manufacturing strategy and Just in Time inventory management procedure, the company could have saved a significant proportion of its business expenditure (Baron, 2013).

The company has recently started using robotics and other advanced technologies in its manufacturing plants, which makes the production process more efficient and productive (Needle and Burns, 2020). Once the production is complete, the products are sent to the distribution centres from where they would be shipped to the exclusive car dealers. Aston Martin does not go for inclusive dealers because of the luxury positioning of the products (SMMT, 2021).

The marketing and sales strategies of the company haven't gone through any major change recently. This affects the brand awareness (SMMT, 2021). The company relies on placement of the products in movies and TV shows (Needle and Burns, 2020). However, the company should also focus on digital media platforms to promote its products by communicating with the target audiences.

Firm infrastructure and technology are up to the standards. However, the company fails to utilise its human resources as the sources of competitive advantage for the organisation (SMMT, 2021). Therefore, adequate human capital development initiatives should be undertaken to improve the skills, expertise and industry knowledge of the employees (Shaikh, 2015). The employees should also be encouraged to take part in the idea generation process for the company's product lines.

Conclusion

The discussions made on the automobile industry and Aston Martin give some crucial insights. The study helps understand how the strategic decision making and analysis models are applied in assessing the internal and external factors of business environment. The report has been presented with recommendations for Aston Martin.

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