

Environment analysis of an **cars Industry**

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INTRODUCTION

Change is the only constant. The statement holds true for itself because every business operates in a dynamic environment where it faces competition. In order to overcome its competition, it needs to upgrade. An up gradation can be in any way. It can be up gradation of technology, business policies, strategies etc. Till today, many businesses feel reluctant to change. This is because they have become so used to the old methods of production that they resist change. A better and enhanced technology not only improves the productivity but also minimizes the cost incurred. Volvo is a Swedish multinational automotive company, it was founded in 1927 by Assar Gabrielsson and Gustav Larson but as of today its owned by Geely Holding group of China. The company is headquartered in Gothenburg, Sweden and is famous all around the globe for manufacturing Trucks, Buses and Cars. As of 2017, it had around 38000 employees and the total production output was around 5,70,000 vehicles. The company went public in the year 1935 and was listed in Stockholm stock exchange. It is one of the largest and the most valuable companies in Sweden. The current assignment will focus on Volvo company's business environment, changing technology and its business strategies.

1. Major forces shaping the business environment of car manufacturing industry.

The car manufacturing industry has gone through major changes and evolution in the past 3 years. The industry witnessed changes in technology. Exterior, engine and features. The cars have become more responsive, smart and internet friendly. A person can lock and unlock his car with the help of his smartphone. The engines have become more powerful with automatic transmission but the major evolution that changed the automotive industry forever was the introduction of electric cars. Electric cars are the need of the moment and there is no doubt about that. The increasing emission and pollution from diesel\ petrol cars has impacted the environment in drastic manner. Therefore, many automotive companies like Tesla and Volvo are switching towards manufacturing of electric cars. Volvo company, in order to meet its customer needs and wants, will start manufacturing electrical combustion engine instead of internal combustion engine. The CEO and President, Hakan Samuelsson stated that the company has always given priority to their customers needs and wants and now they wish to have electrical cars then they want to design electrical cars for them. The CEO also stated that it will be the

most risky and challenging move by the automotive company over these years and they are hopeful that it will be worthwhile for them. (Kumar and Maqbool, 2018).

Major external forces affecting auto mobile industry are political factors, economic factors, social factors, legal factors and environmental factors. All these factors equally affect the company and the importance of any factor cannot be ignored.

- Political factors: Political factors are those factors that are controlled by the government authority and it can have a huge impact on the working of any industry. For Volvo and electrical cars, the government has promised to offer subsidy and tax exemption for both manufacturers and customers. It is a win-win situation for everyone and the icing on the cake is the fact that it will preserve and protect the environment.
- Economic factors: Economic factors are the main factors affecting the manufacturing and sales of cars. With the subsidy and tax exemptions, the cost of electric vehicles have reduced and this boosted the sales of these cars. Also, the fact that people will no longer have to spend any money on petrol is another major benefit. This factor will also play a major role in the growth of Volvo company and its sale. Even in developed countries like United Kingdom where people already own a car, it is predicted that they will sell or dispose off their old cars and switch to electric cars.
- Social factors: The auto mobile industry has transformed the whole society. It is not a luxury any more, it has become a necessity. Be it an upper class or a middle class family, everyone needs a car and with the increasing population it is quite obvious that the demand for cars will increase and since the middle class cannot afford the surging diesel prices, it is forecasted that they will switch to electric cars, sooner or later.
- Technological factors: Technological factor has been the single most influencing factor for the production of electric vehicles. Auto mobile industry has gone through a lot of changes since the time it was first invented. Volvo company analysed its competitor's market and identified the customer needs and wants. This induced them to manufacture electric vehicles and introduce electrical combustion engine. The company has also introduced an upgraded facelift version which is basically a better looking model that has a lot of smart gestures and controls. (Jiang and Lu, 2018).
- Environmental factors: Environmental preservation and protection has also been a major inspiration behind introduction of electrical vehicles. The devastating effects of petrol

cars on the environment cannot be ignored. Therefore, electric cars are the current need of the moment because they are nature friendly. These cars will ultimately benefit the people as humans will be able to breathe fresh air instead of polluted air.

- Legal factors: The law makers have grounded various rules, regulations and quality standards for automotive industry and manufacturers. It is the fundamental duty of Volvo company to abide by these rules in order to smoothly and freely operate in the environment. The auto mobile industry has always been a matter of concern for law makers all around the world because the company needs to follow a lot of things like safety measures, use of updated technology, quality of steel etc. Any kind of negligence can have adverse effects on the operations of the company. [PESTLE analysis of Volvo company, 2019].

Other trends driving changed in the auto mobile industry

- Accelerating innovation: Innovation is everywhere and there is no doubt about it. But the automotive sector is the only sector that has been hugely affected by the innovation and changes in technology. This has led to auto makers collaborating at various levels so that it becomes easy for everyone to survive in the industry. (Jiang and Lu, 2018).
- Competition: The automotive industry is the most competitive and profitable industry in the whole wide world. The profit part attracts a lot of new players but if they don't innovate then they lag behind and they have to ultimately leave the market. Therefore, companies like Volvo and Tesla, spent huge chunks of money on Research and development in order to overcome the competition. They continuously innovate and create new technologies that help them to survive and grow in that market.
- Unpredictability: It is not an easy job to manufacture a car. The automotive industry suffers through a lot of unpredictability. It may be due to social tensions, foreign exchange, tariffs or fluctuating prices of raw materials. The safety tests can also hamper a lot of problems for the auto mobile manufacturers. The Brexit can also affect the Swedish brand Volvo's UK market. There can be a rise in tariff charges, prices etc. and this may reduce its share of UK market. Therefore, unpredictability is the major problem that affects car manufacturers.
- Consumer behaviour: The consumer behaviour is changing rapidly. Many people have shifted from traditional diesel cars to battery operated ones. But there is still a huge

population of old people that shows distrust towards battery cars. The reason being that these people are of the old mentality and they do not wish to change. Therefore, it has deeply affected the manufacturers as they have to manufacture both diesel and electric cars. Moreover, old people fail to realize the smart and advanced features of these cars.

- Safety: Safety still plays a number one role when it comes to choosing cars. Volvo company is famous for its comfort and safety levels. The company has been successfully passing all the safety tests initiated by the government over the years. It affects the buying decisions of people of all ages because obviously everybody loves themselves.

2. New and emerging business opportunities that production and marketing of electric cars may present to Entrepreneurs and Business executives.

The automotive sector is full of opportunities. It is the duty of companies to tap those opportunities and convert them into successful business model. Volvo company predicted the future opportunities and also identified consumers needs and wants. This is the core reason for their success and growth. The company also believed in innovation and creativity which allowed them to build a separate base of loyal consumers for themselves. The business opportunities associated with electric cars are very diverse and it has also helped them and companies like Tesla to attain a lot of funding from external sources. (Becker, 2017).

These emerging business opportunities are

- Increasing demand: There is a huge demand for electric cars and is expected to grow more in the near future. Their safety level, servicing costs, charging expenses are all cheaper than compared to traditional petrol operated car. These cars may be on the higher end but they are worth it because the petrol and other overhead expenses are close to none. The increasing demand is the major factor that can attract the entrepreneurs and business investors to invest their money in these valuable projects.
- Image building: Innovations are admired by everyone. This helps in image building of the company in the eyes of the customers. Image building not only increases the sales of the company but also enhances their brand value. Volvo has enhanced its image from being a luxury company to an innovative company that fulfils customer needs and demands. This factor can make Volvo a market leader in the United Kingdom and the entire Europe.
- Government support: The support from government is the most crucial thing that anyone could ask for. Government has been supporting production and selling of electric cars by

offering subsidies, tax exemptions, reduction in tariffs and other facilities. This is important because the air pollution caused by diesel and petrol cars is massive. In order to protect the environment, government is offering various schemes on electric vehicles.

- Corporate social responsibility: Every Multinational company has the fundamental duty to fulfil their corporate social responsibility towards the society. This is important because the company borrows society's resources and later on it becomes its liability to repay the society. Companies like Volvo are fulfilling their social needs as well as customer demands by manufacturing electric vehicles. This will help the company in achieving profits as well as they are also contributing towards the preservation and protection of environment.
- Disruptive Innovation: Disruptive innovation will be the major factor for success of Volvo's electric cars because the company's cars will create a separate market for them eventually. Electric cars are the future and they will change the transportation system forever. These cars will have an unmatched speed combined with next level safety measures and all that at a price of traditional car, even if they are expensive, they are going to be worth it. The company has proved the myth of disruptive innovation wrong that it can be done only by the start-ups and entrepreneurs and not by market leading companies (Helmers and Marx, 2017).

Analysing business opportunities using Porter's Five force analysis

Porter's five force analysis model is important because it helps in complete break down of the reasons that are responsible for the profitability of the company. Volvo is not just a name, it's a brand. This model was invented by Michael Porter and the same was mentioned in his book as well. In a dynamic industry like auto mobile, it is important to identify attractiveness, level of competition and profitability of these companies.

- Competition in the industry: As of now, the competition is not a concern for Volvo in the electrical auto mobile sector because till today not many companies deal in electric vehicles. The major company giants like Toyota, Hyundai and Maruti Suzuki are yet to invest in manufacturing of electric vehicles. Moreover, Volvo enjoys a brand name that will help them in achieving competitive advantage.
- Potential of new entrants in the market: The potential of new entrants entering the market is very high because every company knows that battery cars are the future and sooner or

later they will have to switch on to manufacturing them or else they will lag behind. Therefore, Volvo has the perfect opportunity of being a new entrant and to capture majority of market share. (Mathooko and Ogutu, 2015).

- Power of Suppliers: This force addresses how suppliers can affect the entire market. Maintaining good relationship with suppliers can lead to some discount on receiving raw materials and timely receiving of these materials. Also, it is the duty of every company to look for other suppliers that offer same quality materials at cheap price. It is important because it can help these companies in achieving cost advantages.
- Power of customers: The importance of customers cannot be denied after all they are the king of the market. Also, they have the power to accept or reject a product. Volvo company identified the customers needs and wants by doing market research and this helped the company in manufacturing electric vehicles. The company sold around 6,50,000 cars in 2018 which is their all time highest record. The Volvo company is confident that their new venture of electric vehicles will be as successful as their earlier ones.
- Threat of substitutes: The biggest threat Volvo has it's from its competitor Tesla because these two are the most reliable and trusted companies when it comes to manufacturing of electric vehicles. Volvo is a perfect combination of luxury and safety. The prices of both the cars are almost the same but both companies are successful in their respective countries. While Tesla is quite popular in the North America, the Volvo leads the race when it comes to European market. (Vaughan, 2017)

CONCLUSION

From the current report it can be concluded that Volvo is all set to become the market leaders electronic automotive industry because the company operates in more than 100 countries which means that its market share cannot be compared with. Also, Volvo's strong business plan had helped the company in attracting investors, suppliers and even increased their consumer base. The major reason for the success of company's electronic vehicles will be that the company analysed its consumers needs and wants successfully and they have always given priority to their

demand and market research. The use of electrification combustion engine would also have positive impact on the environment and through this way the company could fulfil its corporate social responsibility as well. Thus, Volvo has all the potential to become a market leader in electric car segment, the company just need to tap on the opportunities and convert them into successful business ideas on time. These practices will help Volvo to become successful and their profit will grow by leaps and bounds.

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