

***The Global Business
Environment***

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INTRODUCTION

Global business environment is defined as trading at international level i.e. company is doing business across the world (Cavusgil and Knight, 2015). The global business environment can be classified into two i.e. external and internal. The global business environment helps to increase the efficiency to use resource globally, change the company structure and to develop new marketing strategies. Global Business environment helps to remove the social and political barriers between different countries. Global automotive landscape have changed rapidly over the past five years. Launching of various advance technology in automotive space has provided many opportunities in the market. Global car manufacturing industry expected to tend better, boosted by improving economic condition at the consumer level.

Europe's auto market performance is stronger than the previous year due to improving economic condition in country. Recovery in global economy, automotive market expanded and high production in auto mobile gives strong and stable financial support, which increases performance and growth of auto mobile industry at international level. In 2013, the central and eastern Europe contributed 37% of Vehicle sales. In Eastern Europe 20% of all vehicles are produced. At time of double dip recession, the Eastern Europe has been hit hard and in production and sales of auto-mobiles also fell. However, the economic condition has been recovered and automobile companies sales begins grow in next couple of years.

MAIN BODY

PESTEL Analysis for Global Auto mobile Industry

Political

Political factor plays significant role and directly impact on the growth and performance of auto mobile industry. Auto mobile industry is influenced by the governmental laws and regulations and manufacturer of auto mobile industry are always under pressure by the government in developing countries. Automotive industry are the major source of revenue for government. Government nowadays is in favour of low emission vehicles and provides subsidy

Illustration 1: PESTEL

(Source : Narayanan and Fahey, 2001)

for these low emission vehicles is paid by the market of EU or UK (Kolk, 2016). Taxes is being continuously increased by government on luxury vehicles and fuel guzzlers eco-friendly vehicles are highly in demand across the world and government highly support them for their low environmental impact. Hence, government passes many rules and regulations which highly affect the revenue of auto mobile brands. The importing and exporting rules and taxes varies from country to country. The political factors affect the automotive industry can be understand by that auto mobile industries shifted their manufacturing to lenient wage regulation countries to manage cost and productivity of vehicles. After the collapse of Communism in 1989, many foreign auto mobile industries rushed to get over local manufactures or build their own industry in other countries like Slovakia, Poland, Hungary, Romania and the Czech Republic (Chavez and Sharma, 2018). This makes automobile industries profitable and the Europe's auto industry shifted from west to east. By 2010, Czech Republic doubled its production and the Eastern Europe produced 3.4 million cars annually by 2010, which is better growth for the automobile industry by 33% jump in 2005.

Economic:

Economic factors are mostly exchange and interest rate and economic growth are related to every industry. Auto mobile industry is also affected by economic condition of the world. There are many economic crises in past which has adversely affected the sales and production of auto mobiles, especially in developed countries. When economic condition are doomed, sales and production of vehicles fall. As the result, demand of luxury or high priced vehicles is also down. Increase in the level of income globally in developing countries has resulted in high sales of auto-mobles. When the economic condition is good, the car production is high, which results in rise in revenue and new production designs. In 2003, the UK auto mobile market had a trade surplus of 80% capacity which froze to 1.3 billion euro.

Major factor that affect the automobile company is external price elasticity which comes from oil price dependency. Because automobile companies depend on fuel and crude oil, hence when the price increases the price of automobile and spare parts are affected. In last few years, the automotive prices have increased due to rise in inflation rates (Dobbs, 2014). High prices of petrol does not bring down demand of vehicles. The growing of global markets, the currency difference have a great impact on automobiles industry due to supplies in many countries. The auto-mobile companies are in lot more pressure because, they focused on improving the productivity but due to exchange rates. For example- Euro has affected the profitability of UK based operations.

Social:

The auto-mobile industry is affected by change in social cultural preferences and trends. The auto-mobile market is highly influenced by the socio environmental factors. Manufactures of auto-mobile have to adopt the changes and always have to keep in mind customer's preferences. Time to time people styles and needs are changed. Sometimes customers preferred specific style in some cultures. In some market, SUV's are in high demand and in other the Sedan is preferred. Age difference is also an important key factor in auto-mobile industry, that manufacturer have to keep in mind while targeting the consumer. Social culture is changing continuously that affects the popularity of brands and models. The customers have different

choices according to their needs. For example, if a person is having a large family they will go for more spacious car for comfort ability and on the other hand some want more sporty, luxurious and stylish car that they are comfortable in. Some customers prefer vehicles which are cheap and consume less fuel; and some look for the speed and luxury. The auto mobile company also take care of the customer taste and preferences that helps in determining which type of cars is to manufacture and which one to discard.

Technological:

Technological factor is the most important factor for automobile industry. Auto-mobile industry is depended on technological factors. Technology of the auto-mobiles is improving in many ways. The sales and growth of auto-mobile company is based on technology and innovation. As the customer are more aware of technology, manufacturers provide the auto mobiles with latest features and technology and more featured accessories (Frynas and Mellahi, 2015). With advanced technology, automobile gives tough competition to industry to raise the sales in market. Some industries are experimenting with smart technology car, driverless and flying cars, which gives more competition to manufacturers to keep up the step of technology for survival in market. The other threat of auto-mobile industry is internet. Customers are now aware of the latest technology innovation through internet and it is quite difficult for manufacturer to not follow trends (Chatterjee, 2017). Nowadays, customer also focuses on fuel efficient and high mileage vehicles. The sales of low emission vehicles is high. This shows that technology in auto-mobile area is very important and this affect the sales and productivity of automotive industry.

Environmental:

Climatic changes can adversely affect automobile industry as government is more concerned about environmental pollution. Many laws and rules are made by government for automobile industry to keep environment free from pollution. Manufacturers are designing environmental friendly vehicles. Now, manufacturers have launched the electric vehicles which uses energy saving cells (Kushwaha and Sharma, 2016). Laws related to environment friendliness and carbon emissions are stricter around the world. The automotive industry focuses more on low emission vehicles. The vehicles which are low emitting and low fuel consuming

receive tax subsidies by government and under the law. The EU and UK government are stricter to pollution testing on vehicles. The vehicles passing these test are allowed in market. Environmental concerns are also change automotive manufacturing process.

Legal:

Legal is another main factor that affect the auto-mobile industry. Law forces can influence profitability, performance and growth of vehicle industry. As global automobile industry sells vehicle across the world has to follow all laws related to quality and safety. Recently, Toyota faced a problem due to faulty airbags (Cavusgil and Knight, 2015). As the pollution increases, the pollution related laws grown stricter. The vehicles exported to other countries have to pass strict emission control test. Apart from environmental and safety and quality law, there are tax law and several other laws that auto mobile brand have to deal with for operating across the country.

Porter's Five Forces Analysis for Global Auto mobile Industry

Porter's five forces model is very elaborate concept to know the company's competitive position in market. This method is leading in competitive strategy and international competitiveness.

Threat of new Entrants: Weak

This is a very weak threat because in automobile industry, a large amount of capital is required for investment. For setting up any auto-mobile industry, initially a huge investment will be required, manufacturing facilities i.e. heavily machines are quite expensive and then hiring a skilled staff, which is not an easy task (Kasemsap, K., 2016). Competition from the existing brand is another major barrier to industry, unless a new industry comes with new innovations, techniques and features, which can differentiate them from other products in market. This may create chances to gain the place in the market. Still, brand names, market reputation and value and image is a big challenge for new entrants. Every new entrants have to focus on good quality

Illustration 2: PORTER five force

(Source : Framework/theory, 2013)

and a lot of engineering, which is not an easy task (Kolk, 2016). Government policies and high taxation is one more challenge to new entrant for penetrating in the market.

Bargaining Power of Suppliers: Weak

The bargaining power of suppliers is considerably low in automotive industry for most of them are small players according to industry. Suppliers depend on one or two manufacturer that means if the manufacturer switch to new one, it may affect the business of previous supplier (Chavez and Sharma, 2018). As a result, suppliers hold a very little power and reliable to requirements of auto-mobile manufacturer. The bargaining power of suppliers is high when there are few suppliers. But according to today's scenario of market, high competition among them suppliers. However, availability of raw material used for manufacturing the product that weakens supplier's power. The life span of an automobile is very important for any supplier. The longer

the product stays, the higher rate of replacement of parts is needed. Whereas, the new parts stays long which is not a good new for the suppliers but good for the consumers. Suppliers are relied on manufacturing industries so they have to play per the rules set by brands because switching to another supplier is not a big deal for them.

Bargaining Power of Buyers: Strong

Bargaining power of buyer directly affects the business of automotive industry through revenues. In automotive industry, a large part of buyers that buy single vehicle at a time, they still hold a considerable power. Corporations and government agencies that buy fleets of vehicles. These buyers bargain for the lower price whereas, the small buyers can easily switch to other brand (Dobbs, 2014). For alternative mode of transportation or switching to new brand, there is no big cost involved. Buyers are high price sensitive hence, they switch to another brand that offers the best prices. Customers can use the best options because they have access to right information, product information from the websites. Manufactures always focuses on building buyer's loyalty by making the product of good quality, design, comfort ability and by offering competitive prices. External factors of macro envirusgil and Knight, 2015). As the pollution increases, the pollution related laws grown stricter. The vehicles exported to other countries have to pass strict emission control test. Apart from environmental and safety and quality law, there are tax law and several other laws that auto mobile branonment can also affect the industry. The bargaining power of customers also depend on the factors affecting the market. This overall picture shows that the bargaining power is moderately strong.

Threat of Substitutes: Weak

There are many substitutes in auto-mobile industry including train, bus, car or air-plane. People taking bus, train or air plane to their destination is a threat rather than buying a new car. The higher the cost of operating vehicle for travel such as high cost of petrol for big distance, people will look forward for alternative transportation options (Kasemsap, 2016). Lower price of gasoline can attract consumers to buy vehicles. If you miss the train or bus, you have to wait for another one but owing a car serves you round the clock. However, in case of substitute, you do not need to worry of maintenance.

There are many alternative modes of transportation but owning your own car will give the convenience and accessibility. The product differentiation is important too. In the car industry, there are many cars that look the same. If the customer is looking for the ambiguous product there is little threat of substitution (Frynas, and Mellahi, 2015). So the threat of substitute is weak but still it remains in daily commuters, who choose the cheaper and easier way of travelling by train or bus.

Competitive Rivalry in the Industry: Very Strong

The auto-mobile industry always deal with strong force of competition. The automotive industry competes with many firms through price, features, design, comfort ability, fuel efficiency, style, electronic, brand image and many verticals. Generally, highly competitive industries earn low market margin profit due to high competition (Kushwaha and Sharma, 2016.). In auto-mobile industry, there is always a price based competition but the auto makers considered the price based competition and avoid it by focusing on rebates, financing and long term warranties, which help customers to move forward for the product.

CONCLUSION

From this report, it is concluded that external factors affect the market of auto-mobile industry. Energy and environmental concerns has changed the automotive manufacturing processes. Globalization has forced auto-mobile industry to reduce the cost of designing and manufacturing in the global market. The auto-mobile industries are more and more focused on the low emission vehicles, high mileage, low cost for the better development and growth. The consumer preferences and changing life style are directly or indirectly impacting on automotive companies. Customers are demanding advance technology in auto-mobiles, more features, and new designs and as trend they are also focusing on lightweight materials. The high taxes on automotive product has highly affected the performance of auto-mobile industries for further growth.

Due to large number of re-putative brands in auto-mobiles have increased the level of competition in market. For survival in the market the manufacturers consistently had to make improvements in the products for better sales and marketing. Porter's Five Forces model have a

huge impact on auto-mobile industry because from this the firm know the position of industry the rivalry competition, the impact of substitute to industry and know the strength and weakness of the automotive industry.

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