

# **THE GLOBAL BUSINESS ENVIRONMENT A1**

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## **Introduction**

The UK automobile industry is one of the biggest in the world with the presence of brands like Aston Martin, Rolls Royce, Jaguar and many others. The industry had a turnover of £82 billion last year and added a value of £18 billion to the economy of UK (SMMT, 2020). The industry is however feeling some threats due to the increasing environmental constraints and laws and the changing taste of the consumers in relation to this sector (Statista, 2020). This study tries to focus on the automotive sector of UK by taking into account Mercedes-Benz. It tries to find out how the company has continued its successful run over the years and some of the challenges it faces.

## **Major Forces Shaping the Business Environment of Mercedes-Benz in the Last Five Years**

### **PESTEL Analysis of Mercedes-Benz**

1. **Political:** The UK Government largely supports the automotive sector. Although the Brexit issue raised some serious concern for this sector because 60% of the raw materials for this sector are imported. Reports on Gov (2020), claims that the government has addressed this issue with the 'Automotive Assistance Program' (AAP). This support could prove beneficial for this sector to carry out business.
2. **Economic:** The economic scenario of the UK is mainly stable with higher growths. The economy is going through a rough patch with the GDP growth sliding down to 1.4% and economic activity plunging about 20% mainly due to the Covid-19 pandemic (The Economic Times, 2020). These issues are temporary and might impact the sales of Mercedes-Benz only for a period of time.
3. **Social:** Recent researches published on ONS (2020), show that the age of the majority of the population in the UK is above 45 and the sales of automobiles are mainly generated by the corporate classes. Mercedes-Benz already considers this class as their customers and should capitalise more on them.
4. **Technological:** The UK embraces technological innovations in this sector. A lot of research is done to reduce carbon emissions from cars and also the advent of electrical and hydrogen-propelled cars is also prevalent (Cambridge Independent, 2020). Mercedes-Benz should emphasise on this issue and try to enter this segment.

5. **Environmental:** Measures are taken by the government to reduce CO2 emission from cars. If any automobile company does not abide by the laws set by the government, strong actions are taken against them (Gov, 2020).

6. **Legal:** There are some policies that vehicle organisations like Mercedes-Benz need to follow such as the compulsory fitting of 'electronic stability control' and 'tyre pressure monitoring systems' to comply by the rules. Reports on msn (2019), suggest that all these rules are undertaken by the government to ensure safety and protection.

### **Porter's Five Forces Analysis**

1. **Bargaining Power of Suppliers (Low):** The bargaining power of suppliers is generally low. The suppliers are generally fragmented and they also lack the ability of forward integration (Silver, 2016). This makes them think before taking any step as they do not want to lose out to an eponymous buyer like Mercedes-Benz as the company is one of their main revenue generators.

2. **Bargaining Power of Customers (Moderate):** The bargaining power of customers in this sector is moderate. The factors which govern this are the quality, changing market dynamics and the rise in competition in the market (Amador and Soares, 2017). Mercedes-Benz mainly caters to the upper classes and therefore does not feel the pressure of this aspect to a large degree. They always depend on innovation and brand image to enjoy strong client base.

3. **Threat of substitutes (Moderate):** The threat is mainly from the competitive rivals like BMW, Audi, Porsche that continuously churn out similar models and contribute towards the threat. Production of electric cars from brands like Tesla is also a matter of concern. Asava-Anan (2017), opines that Mercedes-Benz still handles this issue quite well due to the customer base, brand image, quality and marketing.

4. **Threat of new entrants (Low):** In general, the entry of new entrants in the automotive sector is always low as it already has some of the biggest established brands prevalent in the sector. Mercedes-Benz is not at all affected by this aspect.

5. **Threat from Competitors (High):** The threat of competitors in this sector is very high. This sector invest a lot in research, development and marketing aspects to ensure their position in the market (Moller and Haas, 2019). Mercedes-Benz also follows the same route and tries to maintain its position through customer loyalty, technical innovation in their products and focusing more on customer experience.

## **Product Life Cycle**

The product life cycle may refer to the relevance of a product or an organisation in the current times or the future since the time of its launch. It mainly involves four stages:

1. **Introduction:** This involves the launching of a product by the company. It involves a lot of investment and risk factor as there is no guarantee if the product will be a successful one (Gitman *et al.*, 2018). Mercedes-Benz goes through this aspect during the launch of any new vehicles offered by the organisation.

2. **Growth:** Tyulin and Chursin (2020), opine that this phase takes place after a product has become successful and has found a customer base. Mercedes-Benz enjoys this phase after their newly launched vehicles becomes successful in the market. Other factors, however, also need to be concerned. The competitors also take notice of the products launched by Mercedes-Benz and they may also launch similar products in the segment. Mercedes-Benz needs to strongly strategies such as competitive pricing to negate these issues and stay strong in the market.

3. **Maturity:** This phase comes into play when a product reaches its saturation value in the market (Jamnia and Atua, 2019). In case of Mercedes-Benz it may mean the lower sales of a particular product and it must look for innovation and upgradation to stay relevant in the market.

4. **Decline:** The phase refers to that period when the sales of a product reaches its optimum stagnant level and disappears from the market (Gitman *et al.*, 2018). Mercedes-Benz, fortunately, does not face this issue as it is involved in continuous innovation and also enjoys a loyal customer base.

## **Assessment of the Position of Mercedes-Benz in Relation to the Major Forces**

### **SWOT Analysis of Mercedes-Benz**

1. **Strengths:** It enjoys a great brand value and has a loyal customer base. They employ continuous innovation in their vehicles to keep up with the changing times. The brand also has a great product portfolio which comprises luxury sedans, SUVs as well as transport or commercial vehicles (Fusheng, 2020). Mercedes-Benz also invests a lot in the marketing and promoting sector.

2. **Weaknesses:** The cost of servicing is relatively high for Mercedes-Benz if compared to the other big players in the segment (Motor1, 2020). The company also follows the policy of exclusive distribution of the vehicles which makes them lose out on the aspect of expansion of their business to their full potential.

3. **Opportunities:** Reports on SMMT (2017), claim that the increase in demand for premium vehicles in the UK could prove beneficial for Mercedes-Benz. They could invest more in the passenger cars as the segment generates a lot of revenue. The brand could also resort to technological innovations to enter the segment of electric cars to lower the competition that it faces in this sector.

4. **Threats:** The threat is mainly from the competitors like Tesla, BMW, AUDI and others. Fluctuations in fuel prices may also hamper their business as higher prices of fuel will lead to lesser sales of luxury cars. Government regulation policies on regulating environment and global warming may also prove to be issues as these would mean greater investment in research and development for the company. The company already has an increased cost of production, thus it could prove to be a threat as well.

## **Porter's Value Chain Analysis**

### **1. Primary Activities**

**1.1. Inbound Logistics:** Through inbound logistics, Mercedes-Benz retrieves the raw materials from its suppliers, stores the inputs and internally distributes the components and the raw materials to start production (Wehking and Popp, 2016). Maintaining strong relationship with the suppliers is extremely necessary in this step as they act as the backbone.

**1.2. Operations:** Through this step, Mercedes-Benz processes the raw materials into finished products and get ready to launch them in the market. Manufacturing, testing and assembling of products are parts of this aspect (Chemendy, 2018). The service operations also fall under this category. This step helps in improving the efficiency and productivity of Mercedes-Benz.

**1.3. Outbound Logistics:** In this step, Mercedes-Benz is involved in the process of 'material handling', 'warehousing', 'scheduling', 'order processing', 'transporting' and 'delivering' of the product to the desired location (Wehking and Popp, 2016). This is an extremely necessary step because it ensures that the product reaches the customers within a specific time and helps in generating customer satisfaction.

**1.4. Marketing and Sales:** In today's scenario just producing a high-end satisfying product is not enough to drive sales. Mercedes-Benz invests strongly on marketing and promoting activities. Some of the sales activities may include 'advertising', 'promotional activities', 'pricing', 'quoting' and so on (Singh, 2020). Through these procedures Mercedes-Benz has to make the customers understand why they should opt for the products offered by Mercedes-Benz and how the products offered by them are better than their competitors.

**1.5. Services:** The pre and post sale services offered by Mercedes-Benz is an important aspect for the company. In the current market trends customers give due significance to the services offered by the automobile companies. Their brand-selection sometimes depends upon this aspect too. Mercedes-Benz gives due importance to this sector too to ensure the retaining of the loyal customer base that they enjoy (Mercedes-Benz, 2020). This aspect is just as important as the marketing and promotion of their products.

## **2. Secondary Activities**

**2.1. Firm Infrastructure:** Menger (2016), claims that the firm infrastructure takes into account activities like 'quality management', 'planning', 'financing', 'handling legal matters', 'strategic management'. Mercedes-Benz strengthens their position in the competitive market through these factors as it helps them to control and optimise the entire value chain of their organisation.

**2.2. Human Resource Management:** Amarachi (2016), opines that Mercedes-Benz analyses the human resource management by exploring various human resource aspects like 'selecting', 'recruiting', 'training', 'performance management' and so on. These factors help Mercedes-Benz to increase the 'commitment', 'motivation' and 'skills' in its workplace. Analysing of the hiring as well as the training cost also helps them in managing monetary resources effectively.

**2.3. Technology Department:** The research and development sector of Mercedes-Benz is considered in this category. In today's world most of the value chain activities of an organisation is backed by technology. Mercedes-Benz capitalises on the same and integrates technology in the 'distribution', 'marketing', 'production' of its products. The human resource management is also heavily backed by technological support (Park, 2018). Some of the technological achievements may be the presence of automation software, 'technology- supported' customer service. These aspects also help Mercedes-Benz to maintain a strong brand image for itself and also helps it to go through the evolving process with the changing times.

**2.4. Procurement:** The procurement refers to the purchasing of resources or inputs like raw materials, machineries, equipments, supplies and other things that are necessary for the production and running of the organisation (Bag *et al.*, 2020). Due to the presence of numerous value chain activities prevalent in Mercedes-Benz, it should carefully consider the procurement activities for optimising the 'inbound', 'operational' and 'outbound' value chain. This would largely improve their efficiency and improve their overall structure to carry forward business in a more successful manner.

## **Conclusion**

From the study of the internal and external environmental factors, it can be concluded that Mercedes-Benz enjoys quite a viable position in the market. Due to its enormous market presence, it is almost impossible for any other brand to replace it. The only place where the organisation needs to emphasise upon is the production of hybrid, hydrogen-fuelled or hybrid cars. If they are able to enter this segment, it would negate the competition from brands like Tesla, BMW and others. The company would be able to cement its already dominating enviable position in the market for the future and generate higher revenues.

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