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ASSESSMENT 1: ENVIRONMENTAL ANALYSIS OF AUTOMOBILE INDUSTRY

The American Auto Industry Environmental Analysis

Introduction

The automobile discovery goes back to the 1800's. However, the USA has been a major player in both production and innovative technology for automobiles. Henry Ford

invented techniques that improved the process of the production of vehicles. This led to a change in the improvements in a lot of factors. Design, coordination, speed, and customer service have become particularly important as the number of producers increased. The “big three” producers in America had been Ford, Chrysler, and GM. The improvement of the process, design, and technology did not advise without effects on other dynamics including labor unions, government controls and consumer expectations for change. Globalization played a significant role in the advancement of the Auto Industry in America. The entire world experienced a change in the field of business.

Main body

Even though the American designed mass production they have big competition for costumers at the world stage. The Germans and the Japanese have been the major competitors. However, most of the producers reduced their costs. Writers grouped them into 3 major groups. The main group includes

1. Honda - GM – Ford – Toyota
2. Volkswagen – Lamborghini – BMW (Bayerischer Motoren Werke) - Rolls Royce
3. Chrysler – Mercedes-Benz – Nissan – Fiat.

Up until the economics crush in 2008 – 2009, the “big three” had been doing very well in the American market. They lost to Honda, Volkswagen and Toyota who became leaders in the industry. The post economic meltdown consumer confidence has been gained by the “big three” as they have recovered from their financial problems. There have been some growth in the American car industry in tech advanced, safe design and fuel saving. As the American consumers have become sensitive to such features, this has been welcomed by them. The changes by the American producers have helped improve productivity as consumers have grand expectations in terms of new innovations. Within 5 years consumers expect an innovative design in safety and a reduction in carbon emission. This has increased the pressure on IT aided designs, operations, and production. The leader in IT aided design automobiles have been the Japanese. There has been an increase in collaboration leading to a level playing field as they try to gain access to global markets, this has led to standard in these features among the major players. The improvement in IT aided designs have led to the discovery of several types of automobiles including Electric Vehicle (EV), an automobile that runs entirely on eclectic power. This is a design of the future of motoring. Those designs are not purely credited to technologies, but also to the growing global awareness of the impact of the internal combustion automobile and the increase in the price of fossil fuel. The internal combustion mobile emits carbon dioxide, nitrogen oxides, and carbon monoxide. Around different regions there have been an agreement to control such emissions, America is not included in it, as setting a higher target in the reduction of such emissions. With that said they still produce other automobile prototypes beyond the EV as solutions to the problem of carbon emissions. The fact is

that internal combustion engines have a lot of energy loss across various areas of the car. It is said that only 1/3 of the fuel is converted to energy to move the car leading to the emission of these gases. The EV on the other hand is very efficient as all the energy is used to move the vehicle. However, the problem with EV cars is that they are not able to drive long distances like the internal combustion vehicles. Also, the period for recharging is long and very inconvenient. The increased need for energy is yet another problem for EV. If there are no improvements in the harvesting of recyclable energy, the EV will be a better choice, and the cost of production is to be considered. The auto industry has produced the hybrid automobile as an alternative, as it uses both fossil fuel and electric power. Although it is not as energy efficient as EV. America is one of the countries that supports the change toward environmentally friendly autos. However, they may be environmentally friendly, but they do not make economic sense for the producers, also the cost is high production. These producers must change the layout of their plans and ensure the production of the fuel, and the fact that they require a lot of energy which also has an environmental impact. The American auto industry has done well of increasing competition from Japanese (Honda), and the Germans. The US produced cars have drastically improved as GM, Ford and Chrysler are increasing the market share. It is the wake of some challenges faced by some of the foreign competitors, challenges like the recent recall of defective cars by Toyota.

The major goal of this paper is to provide a detailed analysis of the automobile industry. Attention should be paid to the use of the strategy tools and theories, such as Porter's five forces and PESTEL analysis and other approaches.

Porter's Five Forces Analysis

1. Bargaining power of Suppliers

The bargaining power of suppliers is low because of multiple suppliers in the auto parts industry. Due to the growth of the supply system and its specialization, supported by new technological advancements, producers have an opportunity to reject the delivery of materials because of poor quality (Pearlson et al.39).

2. Bargaining Power of Customers

The bargaining power of customers is moderate because in the auto industry customers need to have enough information about products, characteristics, as well as other factors that influence their decision making, price, quality, brand, product image and environmental impact of the product. Many car manufacturers produce products with the same characteristics and sell them at the same price.

3. Rivalry between Existing Players

The rivalry between car manufacturers is focused on the demands of customers in terms of lower prices, more effective distribution strategies, better product

differentiation, and stronger business relationships with supply chains. Currently the existing in the automotive industry are Mercedes Benz, Audi, BMW, Lexus, Infiniti, Honda, Ford, Acura, Toyota, Volkswagen, and others.

4. Threat of Substitutes

The threat of substitutes is moderate because auto products vary even though they have the same purpose. Due to product differentiation, customers have opportunities to select products considering factors, such as price, quality, and design.

5. Threat New Entrants

The automobile industry has an important level of barriers to entry. It needs specific facilities, equipment, human resources, technological devices, distribution channels, etc. The auto industry is attractive to new entrants, but requires them to solve several problems, like environmental demands, customer preferences, industry demands. Because of that the threat of new entrants is low.

PESTEL Analysis

Political and legal factors

Political factors have a strong impact on the development and growth of the auto industry. Production of hybrid vehicles requires more financial support from the government. The production of a new vehicle must comply with the established vehicle emission standards. The financial support of the government across the world should provide to favor the distribution of vehicles with lower CO₂ emissions (Geels 67). Besides, taxes and import laws affect the auto industry growth.

Economic factors

The profitability of the auto industry is related to the financial opportunities of customers. The increased prices are associated with the economic crises.

Socio-cultural factors

Socio-cultural factors that influence the development and growth of the auto industry includes population growth, lifestyle, education level, safety, cultural differences, and the effects of consumer buying habits, their attitudes toward “green” or eco-friendly auto products. They consider price, safety, and space in the car.

Technological factors

Technological innovations play a huge role in the development of the auto industry. Due to modern technologies, it is possible to enhance standards of driving. The innovations of new cars which are environmentally friendly vehicles are aimed at reduction of fuel consumptions. The auto industry needs investments in research and development to

ensure that innovative technologies are useful and meet the demands of customers (Pauwels et al., 142).

Environmental factors

There are some of the environmental factors that affect industry development and growth, including fuel economy and air pollution caused by CO2 emissions. The production of environmentally friendly vehicles, such as hybrid vehicles and electric vehicles, allows changing customer demands and preferences. The advantages of these vehicles over gasoline cars include low emissions and high energy efficiency (Zhuang et al. 137)

SWOT Analysis of Automobile Industry

Strengths

1. Evolving Industry
2. Increasing demand for VFM (Value for money) vehicles
3. Continuous product innovation & technological advancement:
4. Growth shifting to Asian markets:
5. Manufacturing facilities in Asian nations to control cost:

Weaknesses

1. Growth rate of Automobile industry is in the hands of the government due to regulations like no entry of outside vehicle in the state, decreasing number of validities of registration period.
2. Cars recalled
3. Bargaining power of consumers

Opportunities

1. Strategic Alliances: Making strategic alliances can be a smart strategy for Automobile companies.
2. Changing lifestyle and customer groups: Three powerful forces are rolling the automobile industry. Shift in consumer demand, expanded regulatory requirements for safety and fuel economy and the increased availability of data and information.
3. Market expansion: Entering new markets like Asian and BRIC nations will result in demand of vehicles. After these markets, others are likely to emerge soon.
4. Introducing fuel-efficient vehicles: Optimization of fuel engines and cost efficiency programs are good opportunities for the automakers. Emerging markets will be the main growth drivers for a long time to come, and fuel-efficient cars are needed.

Threats

1. Volatility in the fuel prices: At least for the passenger fuel prices remain the determining factor for their growth. Also, government regulations relating the use of alternative fuels like CNG. Shell gas is also affecting the inventories.
2. Intense Competition: Presence of such many players in the Automobile Industry results into extensive competition.
3. High fixed cost and investment in R & D: Because mature markets are already overcrowded, the industry is shifting towards emerging markets by building facilities, R & D centers in these markets.
4. Sluggish Economy: Macroeconomic uncertainty, Recession, unemployment are the economic factors that will affect the automobile industry for an extended period.

Conclusion:

It is necessary to conclude that currently the auto industry is growing. However, it has some problems that require environmental, economic problems and technological concerns. The analysis shows that it is possible to strengthen its growth at a global level. Because of the large competitors in the automobile industry, the increased competition is a challenge for the industry.

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