

ENVIRONMENTAL ANALYSIS OF AN INDUSTRY - ASSESSMENT 1

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Introduction

The environmental of the industry in which a business is operating is needed to be analyzed to exercise understanding about the various aspects of the industry and to evaluate the current trends to gain competitive advantage. The discussion is on the basis of the electric cars named Volvo which had been launched in the Europe market. The major forces in the car manufacturing industry are described with the help of the case study of the article “Electric vehicles in Europe: gearing up for a new phase?” The recent changes in the industry in the past few years had been pinpointed along with the changes which might occur in the future along with the reason for the changes. There had been a shift in the demand of electric cars due to low emission of CO₂ and various other benefits. The discussion also specifies about the new and emerging business opportunities and critically analyzes businesses currently operating in the global automobile industry which might not be profitable in the future.

a) Business environment of the car manufacturing industry.

Assess markets in action

Volvo Cars, a premium car manufacturer had announced the end of the internal combustion engine (ICE) and replace it with an electric motor in the new manufactured cars. It is considered as a historical move by the Volvo cars which have started a new chapter in the history of the automobile industry. The company pride on the award winning design of the Volvo cars and its setting standards on the connectivity and automobile safety (Volvocars.com, 2019). The new car design of Volvo cars are creating small but significant changes in the automobile industry in Europe as well as the other countries. The electrical vehicles with the support of the government had gained momentum and been able to cater significant consumer base. It had been assumed that the automobile industry would further diversify or shift from the age old combustion engine towards electrical alternatives of electric cars. Berkeley *et al.* (2017) stated that there are several factors namely the regulation of fleet emissions, fuel prices and development of prices of battery pack which could impact the adoption of electric cars by consumers.

There had been raised in the hybrids cars which had which had combined the old age internal combustion engine with the electrified power trains which had market share in the last 2 decades. Toyota had already sold above 6 million Prius models with only 10% in Europe. Even though the sales of the electric vehicles are negligible before 2013 but with the regulatory rules by the European Commission, there had been a shift in the consumer's choices. 2013 was an important year which had established the market of electric cars and had set the needed momentum. Even though the sales of electric vehicles is not much impressive but the high growth rates in the Netherlands and Norway shows the current market of automobile is shifting from towards electric vehicles. The global electric cars market is estimated to be \$118,864.5 million in 2017. It is assumed that 2.8 million electric cars are to be sold globally in 2019 which marks 3% of the gross passenger car market. It is expected to grow as high as \$567,299.8 million by 2025, with its 22.3% growing CAGR from 2018 to 2025.

Organizational and other changes

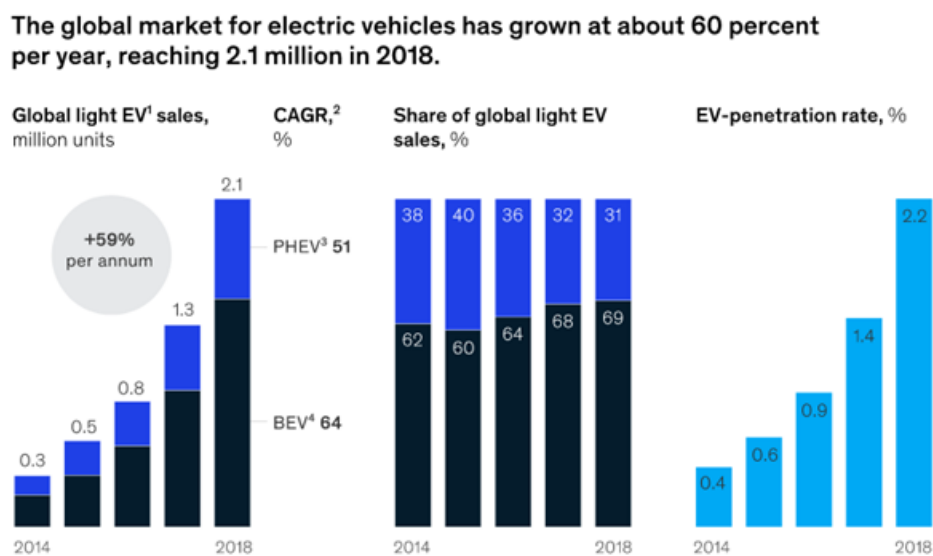


Figure 1: Annual growth rate of electric vehicles.

(Source: Hardman *et al.*, 2018)

The figure shows that there had been 60% growth each year in the global market of electric vehicles. The sales of electric cars in 2018 had grown more than 2 millions globally, which is an increase of 63% based on the year basis and a bit higher in sales than the previous years. The electric cars had been able to penetrate to the rate of 2.2 %; however the electric cars present the fraction of the complete lightweight car market in the automobile industry. There are limited companies that produce electric cars in which Tesla had been the leading

manufacture. As opined by Hardman *et al.* (2018), even though there are fewer companies who produce electric cars, the companies are able to attract loyal consumers. With the shift of views on environment protection, the customers are shifting to automobile with sustainability values. The market of electric cars had intensified in 2019 and would increase even more in 2020. With the electric cars being more affordable in the coming years, Volvo had to work more on innovation to increase market expansion and to maintain its current position. The International Energy Agency forecasts, the number of electric vehicles in the world roads would be 125 million by 2030. Volvo needs to increase make benefits of the situations and increase the drive towards production.

Business models

Porter's Five Forces

Threat of New Entrants (Low): The threat of new entrants is low as any new entrants would not be able to achieve the business model in which Volvo operates. There are strong consumer services and advertising as well as the standard differentiation of products. Figenbaum *et al.* (2015) had opined that there would be an increase in the competitions in the electrical vehicles by the coming few years. However even with the increase in the competition, new entrants would not be able to pose as a threat for the Volvo.

Bargaining Power of Suppliers (Low): The bargaining power of the suppliers is low due to the less differentiated, relatively standardized, and low switching costs. The suppliers profits are closely related to the profits of the company, therefore the bargaining power of the suppliers are low. Volvo maintains various suppliers in the different operational markets which not only ensure that the supply chain is efficient but also controls the supplier's power of electric vehicles.

Bargaining Power of Buyers (Low): There are extremely few firms which could offer high quality products as Volvo. Günther, Kannegiesser, and Autenrieb (2015) stated that the consumers are price sensitive but also are inclined to buy quality products. Even though there had been raised in the companies which are producing electric cars, the company's focus on innovation has ensured that consumers are attracted to its products. The cost advantages have ensured that the company is able to attain competitive advantages.

Threat of Substitute Products or Services (Low to moderate): There are extremely few products which are available in the marketplace who have the capabilities to offer products as offered by Volvo. However the electric cars of the other companies are expensive, therefore the buyers are unlikely to shift from the Volvo.

Rivalry among Existing Firms (Moderate): There are extremely few companies who are able to compete with Volvo in aspects of electric cars. The companies such as Nissan, Toyota, and Volkswagen and so on are well known companies who could pose as a threat to the company. Similar to Volvo, they are also focus on the innovation and improvement in designs. Therefore Volvo needs to conduct market research to ensure the company is able to maintain its market position.

VRIO model

Resources	Valuable	Rare	Imitable	Organized exploit	Competitive advantage
Strong global presence	Yes	Yes	Yes	Yes	Realized sustainable competitive advantage
Innovation in design	Yes	Yes	Yes	Yes	Realized sustainable competitive advantage
Innovative strategies	Yes	Yes	No	Yes	Realized temporary competitive advantage

Table 2: VRIO Analysis

(Source: Created by the author)

The above figure shows that Volvo had been able to realize sustainable competitive advantage in the aspects of strong global presence and innovation at design. There is need to develop the sustainable advantage in the strategies to ensure that the company is able to achieve complete competitive advantages in market as well as in comparison with the rivals of electric cars.

b) New and emerging business opportunities that the production and marketing of electric cars

Business opportunities (PESTEL)

Factors	Current situation
Political	• Enforcement of strict safety regulations • Pollutants emissions control policies • European Commission regulations to decrease pollution.
Economic	• Average salary for full time jobs is £36,611 • Part time jobs salary is £12,495 • Corporate tax increase by 18% by 2020 • \$88,081.13 billion estimated GDP growth in the year 2019 • 1.8% inflation rate decrease in 2019
Social	• Norms of owning at least 1 car • Cultural phenomenon of using private cars • 67.53 million population count in 2019
Technological	• Advancement in the automobile technology • Introduction of assist systems of emergency brake • Government investment of £28 billion for technological development
Environmental	• The raise of awareness about the harmful effects of pollution

	● Government target to decrease 80% of carbon emission by 2050 ● Government initiatives to stop global warming
Legal	● The copyright laws ● The Berne Convention for the protection of artistic and literary works

Table 2: PESTLE Analysis

(Source: Created by the author)

The above analysis is based on the current automobile industry scenario based on the political, economic, social, technological, environmental and legal conditions in the UK. There is a drive to increase the sales of the electric cars in the UK as the political enforcement of strict safety regulations and pollutants emissions control policies would encourage consumers to purchase electric cars which have advanced safety controls and emits lesser amount of harmful gases (Christie *et al.*, 2016). After European Commission regulations to decrease pollution there had been a change in the consumer's interest to purchase electric vehicles of Volvo Cars. The \$88,081.13 billion estimated GDP growth in the year 2019 had ensured that the population has the capital to spend on commodities such as cars. There had been estimation of decrease in the corporate tax by 18% and 1.8% in inflation rate would lead to a reduction of costs of Volvo cars. With the average salary for full time jobs is £36,611 whereas part time jobs salary is £12,495, most of the population would be able to invest in electric cars.

The social factors are extremely favorable for boosting the sales of electric cars as most of the population of the UK prefers to travel by private cars instead of public transport. With population counts of 67.53 million would be favorable for the electrical car companies to increase the consumer base by suitable policies. In the UK alone, there had been an increase in the automobile technology such as the introduction of assist systems of emergency brake. The government investment of £28 billion for technological development has created opportunities for companies to increase the sales. Casals *et al.* (2016) stated that the environment awareness had influenced the global population. The raise of awareness about the harmful effects of pollution in the global population had raised the demand of electric cars. Along with the

government target to decrease 80% of carbon emission by 2050 would be helpful to increase the consumer base. Government initiatives to stop global warming had led the consumers to act on reducing the emissions of harmful gases. Record sales and profits growth in five consecutive years shows that Volvo cars have been able to attract the potential consumers (Volvocars.com, 2019). The legal factors of the copyright laws and the Berne Convention for the protection of artistic and literary works are favorable for the company to launch new designs of Volvo electric cars without the risks of design replications. The reasons to engage in international trade are because the outlook of the global population towards the electric vehicles had changed. There Volvo Cars needs to focus on the expansion of design and business to several automobile markets.

Market structures and their influence on firm strategy

The market structures are influenced by the microeconomic and macroeconomic foundations of the global market. The factors such as the personal income, expenditures as well as the GDP and inflation rate in the market impacts the automobile industry. As opined by Harrison and Thiel (2017), the electric market structures are to be influenced the most as the market is new and still in the process of establishing itself. The new and emerging business opportunities on the marketing and production of electric cars may present to Volvo entrepreneurs and business executives are by the ways of making consumers aware of its innovative and sustainable quality. Simon, Ziemann and Weil (2015) stated that the consumers in the global market are being more aware of the environment. Entrepreneurs and business executives need to take advantages of the consumers wish to protect the environment and base the marketing strategies based on the sustainability of the Volvo cars. The EU regulations and the government investment in the technology should be taken advantages to improve the technology used for the production of the electric cars.

The long run changes are to be based on the changes of strategies which are used to ensure that the Volvo cars are able to achieve the desired market position. Tesla had been the leader of the electric car manufacturing companies. Even though the Volvo was the first to introduce electric cars, Tesla had gained more market share than Volvo. The long term strategies should be based on the strategies to gain more market share compared to rivals by innovative designs of electric cars. The short term changes are the changes in the marketing and advertisements to ensure more consumers are aware of the electric cars produced by Volvo.

Other businesses currently linked to the global automotive industry

The other businesses that are operating on the traditional model of internal combustion engine (ICE) or cars which runs on natural resources such as petrol and diesel are need to be aware of the changes in the global market. The global automotive industry is changing to be more innovative with the advent of electric cars. Volvo cars need not to invest in or collaborate with companies who had not changed with the changing scenario of the global automotive industry. Zhou *et al.* (2015) opined that any investments with businesses operating on the traditional model of internal combustion engine would not be profitable in the long run. As the global scenario is changing, the companies with traditional car designs should change too.

Conclusion

The conclusion of the discussion on Volvo cars is that it had been able to revalorize Europe market and the global automobile industry by its introduction of electric cars. The major forces in the car manufacturing industry are described with the help of the case study of the article “Electric vehicles in Europe: gearing up for a new phase?” had described that the market of electric cars are growing. The recent changes in the industry in the past few years have been an increase in the rate of sales of electric cars due to EU regulations and other factors. The demand of electric cars had increased due to low emission of CO₂ and various other innovative benefits. Volvo cars need to include few long term and short term changes to acquire the leading market position which is currently acquired by Tesla. The discussion also specifies about the new and emerging business opportunities and critically analyzes businesses currently operating in the global automobile industry which might not be profitable in the future for Volvo cars.

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