

Environmental Analysis of an industry

LCBB4005

Name of Student: Eugenia Racos

Student ID Number: 1906576

Name of The University: University of Wales Trinity Saint David

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Introduction

It is very essential for organisations to recognize the environmental factors affecting the business functions and organise their strategies accordingly. This report is going to evaluate how the automobile industry has been shaped by environmental factors. Furthermore, this report will contain how the organisation Rolls Royce can position itself to gain a competitive advantage in the market along with the opportunities and threats in the market for that organisation.

Rolls Royce was originally founded in the year 1973 which has been undergoing partnerships and mergers throughout the initial years until the German car manufacturer BMW purchased its rights in 1998 (rolls-royce.com, 2021). Currently, this British company is known as Rolls-Royce Motor Cars Limited and headquartered in Goodwood, West Sussex, England, United Kingdom. Rolls Royce primarily produces luxury cars and is operational all over the world with generating around £32,266 million in the year 2019 (rolls-royce.com, 2021). The company is currently employing over 51,700 workers all around the world (careers.rolls-royce.com, 2021). The portfolio of Rolls Royce product line includes Phantom Sedan, Dawn Convertible, two-door coupé, and the Cullinan SUV.

Task 1 Explain the major forces shaping the business environment of the car manufacturing industry. In your analysis, you should explain how the industry has changed in the last few years.

The automobile industry has been evolving with the changing trends in the market and the demand from consumers. One of the major forces that have impacted the industry is the external environmental factors. To understand how these external environmental factors have affected the business operations of Rolls Royce and overall Automotive industry, PESTEL analysis can be performed as below:

Elements	Factors	Influence
Political	Impact of BREXIT on UK	• Whole dynamics of the car industry have changed since Britain's exit from the European Union, a phenomenon known as the BREXIT. The top aim of organisations along with Rolls Royce is to secure a beneficial trading deal with the United Kingdom. The EU comprise 81% of the U.K.'s imports while export volumes make up to 52.8% (Bailey, and De Propriis, 2017). • There has been a huge gap in labour in the automotive industry because of the effects of BREXIT. Due to the policies of the EU, there existed flexibility in the mobility of workers and employees which allowed manufacturers to be agile in their business.
Economic	Fall of Pound Sterling High production cost	• The Pound has been observed to fall against the Euro in Europe which has hugely affected the automobile industry by putting a restriction of spending capacity of

		consumers in the automobile industry (Pardi, 2017). • The giant Rolls Royce has also been hugely affected by the economic factors such as high production cost, and fluctuation in oil prices which lowers the profit margin of the company. • Moreover, Rolls Royce might experience a market situation where the production of the car is more than the sales or demand as well as some season where the company might lack behind in meeting the expectations of consumers due to the changing financial market situation since BREXIT.
Social	Globalisation Changing seasons	• The organisation Rolls Royce is widely known for its luxurious cars all around the globe. The globalisation has further benefitted the company in expanding its business into new emerging economies and serve new consumer target market from various countries (Duval and Macilree, 2019). • The organisation Rolls Royce alter its business operations according to the changing seasons and demands from the market. Although the basic principle and product integrity remain the same, its

		production and sales are managed according to the financial condition of the market.
Environmental	Renewable sources projects like Project Sunshine Reducing energy consumption and emission	• Since the company has established strong values and principles in the market aligning it with the brand's reputation, Rolls Royce keeps on implementing various methods to cause the least harm to the environment (rolls-royce.com, 2021). One such method would be the project Sunshine where innovations on renewable sources are carried out. • Another aspect the company has to consider and act on is reducing the energy consumption in its business operations all the while reducing the use of fossil fuel as well and providing a more eco-friendly mode of luxury transportation.
Technological	Increasing competition in the eco-friendly market Innovations in hybrid and nuclear technology	• The car manufacturing industry has been incorporating emerging automobile businesses which excels in eco-friendly vehicles like Tesla. This is especially a drawback for a traditional car manufacturing organisation like Rolls Royce which might have to evolve with this shedding its old values. • The efficient way of staying ahead of the curve in the automobile industry is through the adaptation

		and innovations in hybrid and nuclear technology which is the future of this industry as claimed by many (Isac, 2019). Advancements in this aspect will provide a sea of opportunities for rolls Royce to gain a competitive advantage in a new market for vehicles.
Legal	Compliance of employee legislation Anti-bribery act Norms regarding evaluation, registration	• Rolls Royce being a reputed company in the sector is responsible for carrying out all its duties and abiding the laws regarding employee legislation like the labour law. Recently the company let go of almost 9000 of its employees in the airline sector due to the COVID pandemic. It has to make sure that all the employees were properly compensated to avoid legal complications (bbc.com, 2021). • Furthermore, it has to abide by the anti-bribery act and norms related to authorization, registration, restrictions of chemicals, and evaluation (Peltier-Rivest, 2020.). Doing so will ensure the company a safe reputation and sustainability in the market without affecting its profitability.

Table 1. PESTEL ANAYLISIS

(Source: Created by Learner)

From the above table, it can be accessed that the environmental factors play a crucial role in determining the flow and direction of the automotive industry and affecting the profitability of the businesses involved in it (Ferràs-Hernández *et al.*, 2017). To further analyse the competitiveness in the business environment of the automobile industry in the context of Rolls Royce, Porter's Five forces model can be used as below:

1. Threats of New Entrants

With the growing need for a more innovative and eco-friendly mode of transportation and new businesses emerging to meet this demand, the threat of new competition in this sector is really high for traditional luxury companies like Rolls Royce. This company has to identify the new competition and build its strategies to protect and sustain its competitive edge in the market.

2. Bargaining Power of Suppliers (High)

The power of negotiation suppliers hold can hugely affect the profit margin of the Rolls Royce. The company will face more inventory cost if the suppliers hold more bargaining power, in turn providing the goods which are already premium in the range at much higher prices to the company, declining its profitability.

3. Bargaining Power of Buyers (Low)

The bargaining power in the business context of Rolls Royce remains relatively low but it still poses a big challenge for the company as most of its customer base is powerful which puts pressure on the organisation to provide best of its services at a minimum of cost.

4. Threats of Substitute Products or Services (High)

This is perhaps the biggest challenge for Rolls Royce as even when the company is well established and possess a loyal customer base, some novel businesses are offering the same services in a much lower cost to the consumers. This organisation is known for providing the luxury and class to its consumers which have become a primary business goal for many other businesses as well.

5. Rivalry among the Existing Competitors (High)

The competition for Rolls Royce in the automotive industry is stiff as other reputable businesses are existing in the market rivalling with Rolls Royce that are bringing similar products to gain a competitive advantage in the market. This affects the company's pricing strategies, marketing strategies and organisational operations to a great degree.

Task 2 Provide a critical assessment of the opportunities and challenges that these forces present and discuss how a firm can best position themselves to gain a competitive advantage.

Although the industry has been operating with constant pace, with the advent of latest innovations like smart devices, internet, hybrid and nuclear technology, the dynamics of the automotive industry has been evolving as well. To recognize what are the strengths and weaknesses of Rolls Royce are in this market and what opportunities and threats lie, SWOT analysis can be performed as below:

Strengths	Strong brand image Luxury alternates Skilled workforce	• The company Rolls Royce has a world-known reputation for delivering luxury and premium products for its ultra-rich target market which is the strongest advantage of the company since it does not have to be concerned with losing its brand value (Knobloch <i>et al.</i>, 2018). • The company is known for building its luxury automobiles with the keenest of determination using a skilled workforce. The cars at Roll Royce are not manufactured in mass production like other companies and each of its cars is paid extra attention in making.
Weaknesses	Small target market Extraordinary prices with the relatively same design	• Since most of its cars are ranged at premium prices, the target market of Rolls Royce is relatively small and the company has to heavily depend on customer loyalty and repeat purchase from the audience which is a major drawback. • The company offers luxury cars but most of them have been evolving from years instead of getting a whole new

		range of designs (Xionget <i>al.</i>, 2018). The clients of Rolls Royce are mostly satisfied but more of the audience is demanding innovative designs aligning it with the extraordinary prices of the cars as well.
Opportunities	Customisation Tech-supporting vehicles	• Furthermore, providing customized cars as per the likings of its customers has been trending recently which provides new opportunities for Rolls Royce to deliver customer satisfaction. • With the advent of technologies like the internet and wireless operations, the demand for automobiles supporting voice recognition, features like smartphone, hands-free chatting or calling, have been exponentially growing. Recognizing the potential implementing strategies accordingly will prove to be very beneficial for Rolls Royce or any other organisation in the automobile sector for that matter (Olabiet <i>al.</i>, 2021).
Threats	Stiff competition Demand for environment-friendly automation	• Rolls Royce has been experiencing some tough competition in the automation sector because of innovations and different strategies used by its competitors to gain a competitive edge in the market (Gamme, and Lodgaard, 2019). • Since more and more people are becoming aware of the environmental damage caused by the automation industry, the pressure to come up with

		innovations to tackle this has been increasing for Rolls Royce. If not acted effectively, this company might lose come of its customer base which is already very limited in the market.
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Table 2. SWOT ANALYSIS

The market conditions and environmental factors affecting it has been critically analysed, which can be used to create a positioning strategy for Rolls Royce to achieve sustainability in the market and expand its business to attain more profitability. Following are some of the positioning strategies that can be implemented in the business functions of Rolls Royce or any organisations in the automobile sector to gain competitive advantage (rolls-royce.com, 2021):

- ***Price- driven***

This can prove to be a very effective strategy for businesses in the automation industry to position itself in the market. The cost-based strategy refers to marketing the products based on its prices. For a luxury automobile like Rolls Royce, the pricing strategy is heavily used to establish the brand and its products as premium and only available to a certain section of the market.

- ***Specialisation of forte***

This type of positioning has been proven to be very beneficial for sustainability and gaining a loyal customer base in the automation sector. As for the company Rolls Royce, it has positioned itself in the market by establishing as the organisation which excels in luxury and class and delivering best of a luxury than any of its competitors in the market, attracting a customer base which seeks lavishness.

- ***Quality***

Providing the customer with the best of quality products and services is an excellent way of attaining a higher position in the market, further increasing the brand value and reputation. To deliver customer satisfaction, automobile businesses like Rolls Royce should strive to meet the expectations of customers within the set price of the products without comprising on its quality.

Conclusion

To conclude, this report critically analyses the impact of environmental factors using PESTEL and Porter's five forces model on the automation industry. The car manufacturing and automotive industry have been influenced heavily by the environmental factors since its origin, and the organisations that are leading the market perform environmental analysis to understand these factors. Furthermore, the strengths and weaknesses of Rolls Royce have been identified and provided positioning strategies in order to determine how the firm can perform better in the automobile sector. With implementing the right strategies by acknowledging the forces shaping the industry, any organisation in the automobile industry can aim to achieve sustainability and competitive edge in the market.

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