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Car Industry Analysis

Introduction

The purpose of this report is to analyse the whole car industry and take a closer look into the car production in Eastern Europe after the 1990's. This analysis will be made through a few well known methods as PESTLE, SWOT and Porter's Five Forces. In the first part of the report the car industry will be analysed through external factors with the help of PESTLE analysis.

Discussion

The PESTLE analysis is a strategic look insight and understanding of the external factors and influences on a business. The PESTLE analysis is used to find major gaps and weaknesses that an industry may have because of the external factors.

Political Factors

The car industry is quite often affected by political factors. One of these political factors is the tax regime which can influence positively or negatively the imports or exports of automobiles. The tax regime can also influence the investments in new factories or the expansion of the existing ones.

The Eastern European countries, after the collapse of communism, made a smart move and relaxed the tax regime or even gave some tax free benefits in order to attract investors in the car industry. As a result some of the important car manufacturers opened plants in countries like Poland, Romania, Slovakia or Hungary.

Another political factor which has an important impact on the car industry is the political stability or instability. The companies playing in the car industry, as any other company, from any other industry, are avoiding to invest in any country where the political environment is not stable and the political regime is changing often.

Another factor that influenced massively the high investments in Eastern European car industry is the fact that most of these countries became part of the EU market, this way the borders disappeared and also the duty taxes.

A very important political factor raised in the last 15-20 years, that is the strict emission regulations introduced by many countries. This measure favours the cars with lower CO₂

emissions and tax with higher rates the polluting cars. This regulations pushed the manufactures to make important investments towards “greener” cars. (Academia, 2018)

Economic Factors

This factor is one of the most important from all because it has the biggest impact on the growth or decrease of sales. Obviously an economic growth has a positive impact in the car industry, the car sales rise and as a result the car production will need to increase as well as the car manufactures revenue.

The economic factor was one of the most important factor which influenced the car manufactures to invest in Eastern Europe. Because in the communist era, the car industry in these countries was weak, and also because of the political environment, many families has no cars. After 1989, the economical growth of these countries raised fast and as a result the demand of cars in this region increased. Also the need of possession and “Western life” attraction increased the sales in Eastern Europe. The rising gas prices in the West pushed the customers towards small, compact cars, and this type of cars was a specialty of Eastern Europe.

Another important economical factor which determined the car manufactures to invest in Eastern Europe was the low cost of manufacturing cars, as the salaries paid to employees were much smaller than in the West, and also the raw materials were cheaper, as a result the net revenue of the companies raised significantly. (New York Times, 2006)

Social Factors

These factors are not easy to find throughout the car industry, it includes mostly changes in culture, changes in global demographics, and also changes in the purchase pattern and buying capacity of customers.

The sales of cars are influenced by the trends in the market and customers wish. The demographics of customers is also a factor in customer demand, for example a large family will buy a spacious and safe car, a family car, while a young active person will go for a sporty car, a luxurious and stylish one for business people.

Another social factor which has an important influence is the recession moments in different markets. The car manufactures that invested in Eastern Europe made a smart move as the customers from this area got more healthy financial wise as their country economy grew fast after the collapse of communism.

Technological Factors

The technology of the car industry need to improve all the time and in different ways. The technological improvement and technological innovation is necessary for each car manufacturer in order to stay close to other competitors and do not lose this way the market share. Also the customer demand for more safe cars or the trend and governments regulations are pushing the cars manufacturer to technological innovations.

The technological factor was another reason in the massive investment in Eastern Europe. The car manufacturer which moved their assembly plants in Eastern Europe did not need to build new plants from ground, they moved to the existing assembly lines left by the nearly ruined communist car makers, this way they just brought some technological improvement which was less costly than to build new plans. Also they used the large number of skilled workers and engineers left.

Legal Factors

Law is an important factor which affects the performance and the profitability of the manufacturer from the car industry. Car selling in the international market are regulated by laws related to vehicle quality and safety, as well by their pollution laws have become most stricter all around the world, the cars being exported have to pass strict emission controls.

Safety regulations have an important impact on the car sales and imports. There has been many cases of vehicle recalls because of safety issues mostly because of faulty airbags.

Environmental Factors

The ecological factor became very important in the last decade, and the pollution laws became more and more stricter. More countries are banning the vehicles that are not passing the pollution tests, otherwise vehicles with low emissions and low fuel consumption are favoured by governments, receiving tax exemptions.

The electric or hybrid vehicles are more and more a target for car manufacturer, because of government regulations and also because of the new trend in the market.

Some of the car manufacturer, despite the tide laws, tried to trick the pollution test, an latest example being Volkswagen, the manufacturer modified the car computer to recognise when the car is tested for pollution and reduce its emissions, this way they sold Euro5 Diesel engines as Euro6. Unfortunately they were caught and had to pay a huge fine and also lost many customers. (Notesmatic, 2019)

Conclusion

All these factors discussed are very important in the automotive industry as this industry work more than a trillion dollars. As more and more car makers focus on low emission and

low cost vehicles, the importance of environmental, economic and legal factors has grown. The consumer preferences and the socio-cultural factors have an important and direct impact on the car industry. Each of the players in this industry are investing more and more in new technology and innovation in order to seize a larger share of the market.

Part 2

Introduction

In this part of the report, the car industry will be analysed through another two analysing methods: SWOT and Porter's Five Forces model. Porter's model is analysing the competition of an organisation while the SWOT analysis is analysing the organisation from inside to find the strong and weak parts of the organisation, or the threats and opportunities.

Porter's Five Forces model

1) Barriers to entry

The globalisation of world investments and businesses that are moving from national markets to a worldwide environment is an important factor which are affecting the auto market. It is not easy for a new auto maker to entry in the market as the costs are huge and the important players in this industry are dominating the market. Because of this the Porter's model will analyse the existing auto makers and the competition between them.

After 1990, was pretty easy to the car manufacturer to entry on the Eastern European market, they found a nearly "virgin" market ready to be conquered. The costs were fairly low because there was already a manufacturing infrastructure, they needed only to invest in modernisation.

The governments were eager to accept nearly everything and gave them tax reliefs and many benefits.

They got easy access to the distribution channels, even if this was less developed than in the West.

2) Threat of substitutes

Instead of looking at the threat of consumers switching manufacturers, the car makers should look at the possibility of switching to other travel options as buses, trains or aeroplanes. The fuel price and the higher cost of operating the vehicles are also good motives for consumers to choose vehicles or to switch to alternatives.

There were less threats of substitutes of the car industry in Eastern Europe as there the consumers were hungry to buy and own the car, the fuel prices were less than in the

West, and also the consumers the financial health was improving pretty fast. Also the alternatives were mostly inexistent or not enough modern or wide spread.

3) Competitive rivalry

The car industry is a highly competitive and as a result there are low returns because of high competition costs. As a oligopoly, there are a few players on the market, each action made by any of them will affect automatically the price. Price based competition is avoided by car manufacturers because this is not leading to increases in the market place seize. The car companies update their cars nearly every year, this is a benefit for consumers but if a significantly change in design or feature is made this can lead to delays that can result in cost increase and a slower profit growth.

Even if price based competition is avoided by manufacturers, after 1990, in Eastern Europe this was a strategy adopted by the car manufacturers because they realised that the consumers from this part of Europe were very much price sensitives.

4) Bargaining power of suppliers

The supply business in the car industry is quite fragmented, there are many suppliers involved. Some suppliers rely on one or two car manufacturers as a result if a car maker decide to switch suppliers then it can be disastrous for the previous supplier. In the car industry, the suppliers have little power because of the requirements and demands of the car manufacturers.

The life range of an automobile is very important for parts suppliers, the longer the car is used, the longer is the demand for replacements parts. However, these days the parts are lasting longer which is not so good for parts suppliers but is a good news for consumers. As an example, the switch of rolled steel to stainless made by car makers extended parts life with several years.

At the beginning of 1990, the bargaining power of suppliers in Eastern Europe was pretty strong compared to the West as the demand was high and the offer was not enough to cover it.

5) Bargaining power of buyers

While most of the consumers are price sensitive their bargaining power is almost inexistent. In this industry the bargaining power is in the hands of car makers. If the consumers are not satisfied they can also start looking for alternative car makers, as the prices are pretty high it is not easy for consumers to switch so easily after they bought a car and are not satisfied with it. There are only a few exceptions where the buyers bargaining power is stronger, this occur at the business consumers as car rentals, company fleet or bus companies. (essay, 2019)

SWOT analysis

SWOT analysis is a study made by an organisation to discover internal strength and weaknesses and external opportunities and threats.

Strengths

- 1) **Evolving industry:** automobiles are giving freedom and also economic growth. Almost each car trip and with an economical transaction or other benefits to life quality, as they provide access to doctors, jobs, markets or holidays.
- 2) **Continuous innovations and technological advancement:** with the growing demand in more ecological cars, the car manufacturers are investing more in innovations and new technologies to improve fuel efficiency and passengers safety.
- 3) **Increasing demand of low cost cars:** as the developed markets are saturated, the car manufacturers moved to developing markets as Eastern Europe, Asia, Latin America. In this markets is a high demand for cheaper, fuel efficient, high mileage cars.

Weaknesses

- **Cars recalled:** many controversies about some technical issues and also emission test avoidance or government rules non-obeisance.
- **Consumers power increase:** availability of many number of variants, car industry globalisation are increasing the consumers power to shift to one manufacturer to another.
- **Car industry growth:** governments regulations as duty, emissions rules or fuel price volatility are affecting the growth of the industry.

Opportunities

- **Fuel efficient vehicles:** the increasing demand in fuel efficient cars and cost efficiency programs are good opportunities for the industry.
- **Strategic alliances:** this is a smart strategy made by car manufactures, this way they can differentiate their offers and strategies.
- **Changing lifestyle:** changing consumers demand, new regulations for safety and fuel economy as well as data and information can be a good opportunity for manufactures
- **Market expansion:** entering in new markets and investments in developing markets will result in demand increase

Threats

- **Intense competition:** the presence of a large number of manufacturers, each company trying to steal other companies market share.
- **Fuel price:** the fluctuation of fuel price is the main factor determining the companies growth. Governments regulations to the use of alternatives for fuel is also affecting the industry.
- **Slow economies:** recession, unemployment or macroeconomic uncertainty are economic factors that are affecting the industry for long period.

Conclusion

Porter's Five Forces model revealed the exterior threats over the car industry from competition to consumers behaviour, from governments laws, rules and taxes to economical influences and market development.

There are many factors that can influence the growth or recession of the car industry, but most of the specialists are predicting that will be a rise in the car industry market.

The future of each car manufacturer will depend on their ability to manage the market requirements, governments rules, consumers demand and most important, their investments in innovation and new technologies.

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