

The Global Business Environment

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INTRODUCTION

Global automobile industry stands for varied series of business and organizations involved in the designing, development, manufacturing, marketing, and selling of motor vehicles (Miroshnychenko, Barontini and Testa, 2017). This industry contributes hugely in the economic sectors by generating large amount of employment and revenues. Culture of using car has evolved by leaps and bound on a global level. There are consistent changes happening every year in the industry with increasing competition in the market, shifting customer preferences and advanced technology. Following report comprises of detailed information about this industry and the environment in which it operates. Research on this will be helpful on gaining in-depth knowledge about the subject matter. Based on the case study called production surges in eastern Europe, the two main models which has been used for the purpose of study are PESTEL and Porter's five force. These frameworks are being applied to understand the different factors that are affecting the global automobile industry and the competitive forces prevailing in the market (Bentley, 2017). Through this report it has also been analyzed that where the automobile industry is heading, to be specific the current and future position of the major players in the market.

(A)Assessment of global automobile industry using PESTEL analysis

Theoretical framework

The global automatic industry has grown significantly after the 19th century. Various established brands have entered and are fighting to acquire large market share. Due to the vast size of this industry, there are many factors that are impacting it. From past couple of years more focus has been shifted to the Asian market due to its attractiveness (Losonci and Demeter, 2013). More and more initiatives are being taken by the major players to bring change. New innovation in terms of technology and fuel efficiency have become important part of companies operating in this industry, these were the few reason because of which sales are increasing and this sector is growing day by day. Through PESTEL analysis impacts of different factors have been discussed below:

Application and analysis of PESTEL framework:

Political factor- This is one of the factor that affects the automobile sector, it is related to policies and rules made by the government which is in power. with changes in the ruling party after election new norms are being formed to regulate the activities of the company. This causes fluctuations in the market. Government in the Europe are regulating this industry and ensuring that low emission vehicles are being developed by the companies. Taxation policy differs from country to country, at one place they are higher while at others they are lower. This factor affects

the profitability of the industry. Communism in many countries was the main roadblock in the growth of this sector. After the end of this political ideology in 1989 many foreign companies have acquired the local markets and build factories in countries like Slovakia, Hungary, Romania, Poland and Czech Republic, this is the reason China and Russia are being considered as lucrative market. From this it can be understood that the companies have to manage their working as per the instruction of government (Berry, 2014).

Economical factor- This is concerned with the economic changes in the countries, it comprises of interest rates, employment rates, inflation, fluctuations in the demand and supply. Automobile industry had to face financial crises recently though it ended and companies are again started growing. Sales of the industry are directly impacted due to changing economy. Countries having higher employment rates leads to high purchasing power amongst the customer in the same way increased in demand is also another example that affects the automobile industry in positive manner. Inflation rate impacts the prices of car as result cost of products change that is why it also another vital element, as per the case study it can be understood that hike in the prices of gas have led to increase demand European compact cars. More focus is shifted to producing small cars in the automobile industry. Therefore, analyzing this factor is very important as it helps in identifying the potential threats and weakness and appropriate actions can be taken to deal with them (Zhang and Gallagher, 2016).

Social Factor- This factor is based on the nature of the society. People belief, values, culture, taste, preferences, demographic characteristics. Markets are formed because of the customer therefore every industry have particular segment which it targets. In automobile industry is affected by the changes in this sector, the companies have to keep up with the changing demands of customers and produce goods accordingly. For example, people attaching their social status with the cars would preferred to buy costly and luxurious vehicles while there are people who buy cheap cars which suits their budgets and comfort (Lee, Abosag and Kwak, 2012). This factor creates large amount of opportunities for the existing as well new players who are entering into the industry. Age of the customers is significant element of this sector as younger generation wants stylish cars as opposed to the older generation. Brands like Volkswagen, BMW, Jaguar are introducing new designs and features to attract large number of customers and expanding their business. Trends in the market hugely impact this sector and due to this large sum of money is invested in gaining knowledge about the requirements and lifestyle of customers. The advantage of this factor is that are high chances of maximizing the profits and achieving growth.

Technological factor- This factor is associated with technical aspects in the production of cars, it causes enormous impacts on the automobile industry. From all over the world engineers are expanding their origin with regards to the technology and bringing changes in the standard of living of society. Major players are investing in the research and development unit and developing innovative ideas. Due to the limited availability of fuel and with increasing environmental concerns effective technology high mileage vehicles are being produced and launched in the market. Europe is known for its technological capability automobile sector was the first one that captured many markets. Distinctive and unique features in the cars have become

very common due this factor and with every passage of time more and more changes are coming like automatic systems in the car artificial intelligence and even flying cars. This has become possible because of the advancement in the technology (Cachon, Gallino and Olivares, 2012).

Environmental factor- Changes in the environment like climatic condition, weather, and other ecological concerns are part of this factor. Automobile companies are becoming aware with the ecological imbalances in the nature. Extreme pollution in the air, water is posing serious threat to the survival of humans in fact the whole earth. This industry has seen vast amount of changes in the production of vehicles, in order to control the pollution and green house affect features like low emission, fuel consumption is imposed by the government. In Europe laws have been made to regulate the operations of business in this sector, tax subsidies are given those who incorporates such features in the vehicles. This has positively influenced other countries and they are shifting their focus towards this issue and taking similar measures to improve the environmental condition.

Legal factors- These factors are concerned with the laws made by the government for the purpose of safety of people. Companies have to abide to such acts otherwise they are subjected to the legal action, this affects the profitability of the business. Famous brands ensure the quality of the cars and go through certain test made by the government. This is done to avoid the accidents that can happen in future due to fault in the in the vehicles. In Europe laws have also been made regarding labor, minimum wages act is one such example. By indulging itself in the ethical manner is essential for the long term sustainability of business (Knobloch, Zimmermann and Gößling-Reisemann, 2018).

Recommendation

Based on the above study it is suggested that automobile sector should take further action in reducing its dependence on the fuel and invest on the prospects like using natural energy. Environmental factor should be given more priority. Even though this sector is contributing highly in the economy but it also endangering the human existence (Xu, Blankson and Prybutok, 2017).

(B)Assessment of global automobile industry using Porter's five force model

Introduction

Competitive forces prevailing in the industry affects the profitability of business therefore a framework was created by M. porter in 1979 to understand the different aspects of environment and to what extent competition drive the business. There are five major forces under this model which discusses about the attractiveness of the industry and weather it will be profitable for the organization to operate in that environment or not.

Theoretical framework

Porter's five force model that explains the factors that affect influence and impact the competitive position of business. This is applied on the automobile industry to gain perceptiveness about the position which it holds on global level. These factors are outside the control of business but planning can be done in order to deal with them. That's why this is a very common tool used by various organizations for the purpose of gaining competitive advantage (Han, Porterfield, and Li, 2012).

Application and analysis of Porter's five force model

Threat of new entrance- According to this company's position gets affected by the entry of new players in the market. If there are low barriers to enter into an industry, then it will impact the profitability of the existing companies as they might offer something new to the customers and they successfully steal the buyers from existing players. The more the level of competitions in the market lower would be the profitability. This factor is high when:

- Low capital requirement- Due to this element various small firms will find it easier to enter into the industry
- Lack of government control- Low government interference is always lucrative for the businesses as it leads to high creation profits through unethical means.
- Homogenous products- If the products are identical this causes boredom amongst the customers and they want to try something new, as a result new businesses can enter (Newman and Kenworthy, 2015).

From the case study it can be seen that with increased globalization various foreign carmakers entered into eastern markets and acquired domestic carmakers. This has caused severe impact in the automobile sector many brands like General Motors, Hyundai, Kia etc. have decided to build further plants in the central Europe.

Bargaining power of supplier- This factor states about the power held by the suppliers in the market, in case of high bargaining power suppliers can exceed the prices of raw material. This impacts the business negatively, in automobile sector dealers depend too much on the automakers and they do not hold much power though the foundation of automobile company relies completely on the spare parts provided by the suppliers. In order to maintain the quality of products effective relations had to be made with the supplier gets, it helps in improving the productivity of business. It depends on three main elements:

- Amount and size of supplier- Low availability of supplier can allow them to take undue advantage of this situation and they can charge prices of raw material as their preferences to generate more profit.
- Rarity of raw material or service- lack of substitute of raw material will force the businesses to comply to demands of supplier (Kaplinsky and Morris, 2016).

Bargaining power of buyers- This force explains the power held by the buyers in the market. It has been said customers are the king of the market, this factor rightly points that out as

they can demand lower prices for the quality products, it can impact the growth of the companies. Bargaining power in the automobile sector is low as when a person buys a car or any other vehicle it is for longer period time this happens due to the high prices of cars (Kannegiesser, Günther and Gylfason, 2014). Therefore, automakers do not have to worry about this aspect. Excessiveness of this factor depends on:

- Lack of buyers- Lower availability of buyers can be barrier in the growth of business as automakers have to succumb to the demands of customers in order to retain them.
- Switching cost- If it is easier and cheaper to switch to another product then firms have to lower the prices of their products to survive in the market.

Threat of substitute- As per this factor availability substitutes will allow customer to shift towards other means to fulfill their needs. In the automobile sector there are other of transport which affects their profitability. For example, hike in the prices of oil will give reason to not buy cars and they would switch to other channels. Increasing fuel charges is affecting the automobile sector on global level. Threat of substitute is high when:

- Large number of substitute- If a person cannot afford car there are other options to switch to like trains, buses etc.
- Will of customers- There are chances that customers do not trust other products and would not like to adjust in any situation thus this is one of the factor which determines excessiveness of this threat.

Competitive rivalry- This force determines the degree of competitiveness amongst the firm in the industry generally there are positive outcomes of this factor as companies give their best to outperform each other and acquire competitive advantage in the market. In the automobile sector there are few sellers which stops them to use price tactics though the rivalry has intensified over the year, big brands are introducing varied attractive features in the vehicles to lure customers and expand their market base (He and Mu, 2012). This has led to increase in cost and lower sales volume. Factors which decides whether this force is high or not are as follows:

- Diverse competitors- In Europe various brands like general motors, Volkswagen are competing to create small cars.
- Exit barriers are high- Due to heavy investment in the initial stages in this sector companies find it difficult to exit.
- Customer loyalty- when customers are not loyal to particular brand competition gets intense to acquire and invest hugely on the advertisement to gain traffic from customers.

Recommendation

After analyzing this aspect, it is recommended that automobile industry should focus on reducing competition because it is lowering the profitability and the growth of this sector (Subulan and Cakmakci, 2012).

CONCLUSION

It has been concluded from this research that global automobile industry is facing challenges from various external factors. These are impacting the growth and development of the manufacturing sector. Large number of firms are considering these factors and taking measures to reduce their negative impact on the business. The two main models named PESTEL and porter's five force model explained the how automobile industry are dealing with the complexity of the environment and what is their position with regards to the competition in the market. This industry is consistently developing and bringing change in the society's way of living. It is an emerging market and producing large number of employment opportunities thus this is considered as major source of earning in the developing countries.

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