

The Global Business Environment

[LCBB4005]

Global Automobile Industry

Assignment 01

Student Name: Shafrina Jauffar
Student ID: 1713417
Lecturer: Gazi Arif

Contents

Executive summary

Answer for Question No.1

- Introduction
- Political factors
- Economical factors
- Socio-cultural factors
- Technological factors
- Legal factors
- Environmental factors
- Conclusion

Answer for Question No.2

- Introduction
- Bargaining of buyers
- Bargaining of suppliers
- Threat of substitution
- Competitive rivalry
- Barriers to entry
- Conclusion

References

Executive Summary

The word 'Automobile' comes from the latin word '*mobilis*' which means 'moveable'. The automobile industry is one of a multi-billion industries in the world. It is one of the fastest growing and largest industry in the world too. It was started in France and Germany. After the second world war demand for auto production increased in Japan and the United States. After the world war more than 75 percent of the auto production was found in the United States. Further, first motor car with all essentials was introduced in 1901 named 'Mercedes'. Automotive industry involves in manufacturing motor vehicles as well as selling them via marketing process. Some of the major multinational companies are Toyota, BMW, Suzuki, Honda and etc. Car industry, all the ones corporations and sports worried in the manufacture of motor automobiles, such as maximum additives, which includes engines and our bodies, however except for tires, batteries, and gasoline. The industry's essential merchandise are passenger motors and mild vehicles, consisting of pickups, trucks, and recreation utility cars. commercial motors (i.e., transport vehicles and huge transport trucks, frequently referred to as semis), though vital to the industry, are secondary. The layout of modern-day car motors is mentioned in the articles car, truck, bus, and motorcycle; car engines are described in fuel engine and diesel engine. Automotive industry has a set of laws rules and regulation in order to ensure the safety of the industry.

Answer for question number 01, analyse the PESTLE framework of automobile industry. The factors to be considered in its external environmental components and the second part of this assignment is focusing on Porter's five forces related to automotive industry.

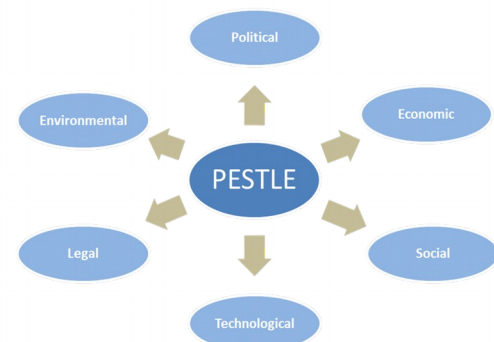
Answer for Question No.1

Introduction

The surrounding, where an organization performs is called as 'Business environment'. As all the components of the environment are closely connected with the business so, it is not possible for an organisation to act isolated. The business environment can be classified as: micro environment and macro environment.

Macro environment consists of external factors which cannot be controlled by the organisation though they have to be managed in proper way to benefit the business. PESTLE Analysis is used to understand and identify those external factors. The word 'PESTLE' indicates the macro environment forces like Political, Economical, Social-cultural, Technological, Legal and Environmental.

Below is a PESTLE framework focusing on Automobile industry that shows how these external factors impact on it.



Political factors

Political plays an important role which directly affect the profitability. Political factors refer the policy, opportunities and pressure brought by the Government. In case of automotive industry, all around the world Governments prefer low emission vehicles. Thus tax for luxury vehicles has been growing higher day by day. Specially, the markets in the United Kingdom and European Union provide Government financial aids for that vehicles with low emission. Globally the demand for Environmental friendly vehicles like Hybrid, has grown also excessive support from the government is received. Corruption and instability in Government has been a barrier for auto companies to invest in those nations. Obviously these regulations and rules heavily affect the profitability of automobile industry. Low emission and fuel efficient technology can be the solution for such government rules. Newly manufactured cars should stick to emission standard of EU before marketing. There are many other factors have impact on this industry like changes in Government regimes and regulation related to wages. The fact is, automotive industry moves the companies to the countries where these rules are gentle. The export and import rules, laws are varied across countries, this too can be hassle for them if the laws are stiff.

Economical factors

These are the factors represent the structure and policies of economic plus employment-unemployment level, raw material cost, inflation rates, exchange rate and etc. Similar to political factors, these too may vary from one nation to other. The price of automotive has increased over last years, because of inflation rise. Oil dependency causes price elasticity. In past, demand for vehicles fell due to higher price of petrol. But in present price of petrol does not show such scenario because now a days the cars are fuel efficient and it grant chance for the consumer to save money. Development of global markets has a weighty effect on competitiveness of supplies and different goods by various countries. The auto industry is facing lot of duress. Even the industry focuses on productivity improvement, divergent exchange rates do not support them.

Socio-cultural factors

It states the culture within the society where the industry operates, including beliefs, aspects, attitude, social classes, buying patterns and wealth distribution. This also has a considerable impact on production and operation of business. In this century people are more concern about the label of the automobile and willing to show off their wealth. Automobile is seen as symbol of status in the society thus it seems to be a fashion among the population. In demographic view, what the customer

exactly want to buy is vary to a wide range. For an instant, person with a large family prefer bigger ample space and safe car whereas, a sporty person feels stylish and luxurious car as comfortable for him. Recession in the markets cause refashion in buying pattern. So, the customers with prestige and showing off mentality lead the industry to manufacture higher level cars to

Technological factors

These are ones, regarding technological intensives, innovation, new invention, mobile technology, e-commerce and etc. One interesting fact about Toyota is that it tries to introduce driverless cars to the market in the future. Thus technology is evolving new ways to reduce carbon dioxide emission and also to reduce the battery loss speed. One of the major aspects to consider during automobile manufacture is eco-friendly automotive motors. Now most leading industries produce cars with alternate fuel systems. Toyota, Volkswagen, Lotus Elise are some automotive companies that are manufacturing environment friendly vehicles. All these indicate that technology takes an important role in automobile industry.

Legal factors

It can be defined as legislation, regulation and rules that make difference to the operation of the business. Vehicles that are being sold in international markets compel to follow the safety and product quality laws. Pollution laws too grow stiffer across the world. Automobile companies that export its products should progress in in emission control. Laws have made by the governments to ensure the safety of the passengers. Further, automotive companies have to deal with tax laws as well.

Environmental factors

Environmental and ecological aspects that have effects on demand of products and the way how company operates. The rules and laws on environmental friendliness gradually expanding in order to prevent the environment so the automotive industries focus on creating low emission vehicles with fuel consumption. The vehicles are allowed in the certain market after passing the pollution test.

Conclusion

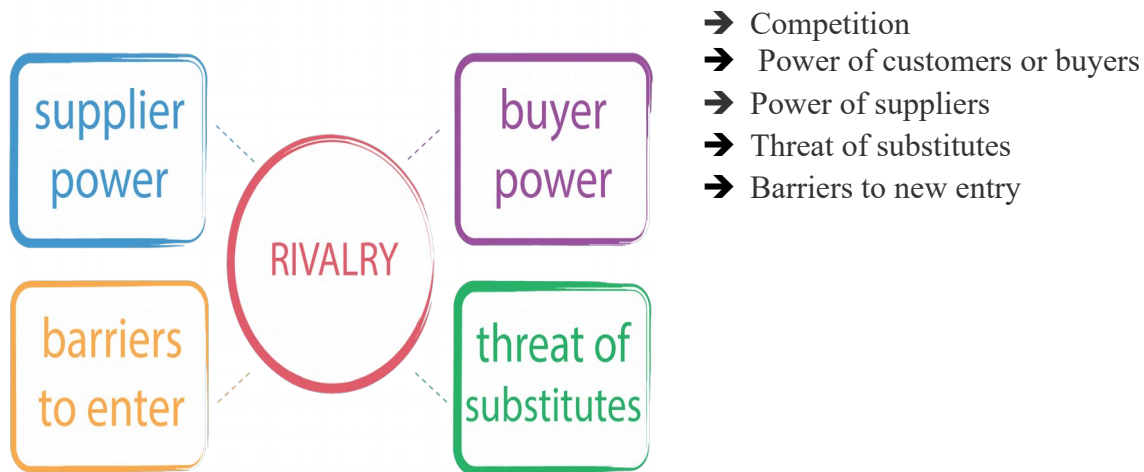
Automotive industry uses PESTLE Analysis for its market planning, product development, strategic planning and etc. By recognizing the macro environment the industry can minimize its threats as well as maximize the opportunities.

Automotive industry is considered as an infractor that is harming the environment. Since customers show more concern on environmental issues, companies have started to produced eco-friendly vehicles. Unfortunately market shares for such environment friendly industry is comparatively very less. Even though there will be increasing demand for such eco-friendly automotive in future.

Answer for Question No.2

Introduction

Poter's Five Forces was introduced by Michael Porter which is a tool used for analysing the nature of competition of a business and how to deal with it. Thus it helps to assess and understand attractiveness and profitability of an organisation. The competitive structure determines the profit of a business organization. It consists of vertical and horizontal forces. This framework includes the following:



Bargaining power of buyers

This force depends on number of companies to choose from, size of the company, the volume of purchase by the buyers, do the customers depend only on us or on our competitors too and the capacity of the customers to produce goods by themselves. A very large number of customers are in this industry since they can be individual buyers or Government or corporation that purchase large amount with low price. There are variety of car brands available in the markets so consumers can easily switch to another brand or else to another type of vehicle. Additionally, price sensitive customers often look for the price of the brand while do purchasing.

Entrants into car generating market calls for crucial capital, specialised and understanding and time required to select up marketplace on the way to produce offers and good enough earnings for operations without the require of coins implantations from economic activities.

Bargaining power of suppliers

This is focused on the substitute available for the supplier's products, whether they supply for different industries, amount costs to switch to another supplier, will they enter to our business further the capacity we have to enter to their business. In case of auto industry, suppliers are available in large number either they can be big or small. To some extent, this industry uses one material instead of another even though it is very rare. Fortunately the needed raw materials are access to a wide range.

Threat of substitution

Under this criteria, quality of substitute, value and the availability of it should be concerned by the industry. For an example, if there is more demand for a product among the customers, the industries try to create new products with same functionality, though the company has to pay attention price-performance, low switching cost for the consumers and the profit gained. Porter preferred

advertising, high quality products, distribution of products and marketing can improve the position against its substitute. It is obvious that there are many alternatives for the customers in the society such as buses, motorcycle, bicycle, train and etc. but offering the same convenience is not possible or very rare. These alternatives cost less compared to automotive and probably they can be environmental friendly as well.

Intensity of rivalry

Porter has mentioned to be aware of existence of close competitors and their size, structure of the industry, growth rate of the current industry, diversification of the competitors, customer loyalty and etc. There is moderate amount of competitors in automotive industry. Thus they are competing for different target customer segments. It is so hard to leave from this industry since it may cause huge losses.

Threats of new entrants

If there is more cut-throat competition, it will be easy for a company to enter into the industry. Loyalty of end users in the particular industry, troublesome faced by the end users to move to another product, requirement of large amount of capital, difficulties faced to access distribution channels, time taken by the workers to improve their skills to do their work and etc are some of the factors, that limit the threat of new entries. When we focus on automobile industry, the amount of capital required for entry is higher. Some legal regulations and rules act as a barrier. Further almost majority of the auto companies have created a good reputation and brand image in the market. The quality and the design of the products make differences from one to another. Unfortunately, accessible to distributors and suppliers is easier for a new entry.

Conclusion

To become more attractive and to earn high profit, the Automobile industry should have weak bargaining power of customers and suppliers, barriers has to be high to entry, availability of substitute should be few and finally there has to be low level of competition.

The above dialogue highlights that the motor vehicle production enterprise is unattractive new entrants due to its severa important threats, however possibilities does exist for. inside the case of Ford Motor employer, the car enterprise does seem appealing due to the fact Ford has been a current corporation for a long time. The discern under suggests that, rivalry, barrier to entry and purchaser strength is rather excessive and each dealer energy and hazard of substitutes are moderate. The marketplace appears to be demanding modern designs which are in keeping with emerging socio-cultural trends, and the prevailing competition could be those who use newly available technology to capitalize on this trend, designing automobile industry that are fuel-efficient and environment friendly.

References

- Miller-Wilson, K. (2015). *History of the Automobile Industry*. [online]
Available at: https://cars.lovetoknow.com/History_of_the_Automobile_Industry
[Accessed 27th April 2019].
- UK Automotive (2018) [online].
Available at: <https://www.smmmt.co.uk/industry-topics/uk-automotive/>
[Accessed 30th April 2019].
- Gillespie, A.(2007). *PESTLE analysis macro-environment.Foundation of Economics*, Oxford University Press, USA.
- Martin, M. (2018). *Porter's five forces*. [online]
Available at: <https://www.businessnewsdaily.com/5446-porters-five-forces.html>
[Accessed 01st May 2019]
- Porter's five force model Automobile industry [online]
Available at: <https://www.essay.uk.com/free-essays/business/porters-five-forces-model.php>
[Accessed 28th April 2019]