

# Porters five forces model to american automotive industry



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Every company or organization aims at improving profitability levels in the process of their operations. Proper strategies to offer the organizations competitive advantages over the competitors during operation are very critical. This cannot be attained in absence of well structured management process of the daily activities of such companies. In this analysis, Michael Porter offers an attractive framework to provide directions to enable business enterprises to survive in the market place amid competition. Business enterprises need to address threats from substitute products in order to secure a considerable market base. Similarly, companies need to consider that possibilities of entry to the particular market by other competitors are inevitable. Strategic planning is essential to enable such organizations tackle the intensity of rivalry from competitors. Business organizations must consider providing affordable prices of their products to tackle the bargaining powers of their clients. Devising proper strategies in dealing with the suppliers bargaining powers is also very essential, in order to enable the company improve their profitability levels (Yacobucci & Cooney, 2006).

## Introduction

Generally, evolution of the automotive industry has experienced various influences from diversified innovations in business structures, societal infrastructure, fuels, manufacturing practices, suppliers, market changes and vehicle components. According to historians, automobiles industry emerged from development of engines which resulted from discovery of new mediums for carrying energy. Such mediums included steam, new fuels including gasoline and gas during he 1800s. Establishment of the initial automotive <https://assignbuster.com/porters-five-forces-model-to-american-automotive-industry/>

firms and development of first motor vehicles in America and Europe occurred in 1876. Other technology developments came in the 1890s and 1900s such as floor-mounted accelerator and steering wheel (Yacobucci & Cooney, 2006). Consequently, these developments speeded-up the automotive industry development thus making vehicles simpler to use.

### Industry definition

The American Automotive Industry is an industry that designs, manufactures, develops sells and market motor vehicles, target diverse national markets (Yacobucci & Cooney, 2006). In fiscal 2008, the industry produced about 70million vehicles which were inclusive of commercial vehicles and cars. In 2008, 79. 9 million automobiles which were new went on sale. Similarly, in the same period, the American Automotive Industry went through pricing pressure from costs of materials and from changes in customers buying habits. Currently, the industry is also encountering increased external competition from the sector of public transport as clients re-evaluate personal private vehicle usage.

### Industry profile

The American Auto Industrial profile involves the industrial size and growth plus the American Automotive industry consolidation. The profile also involves the perceived rise in the international investment by the industry in addition to the rapid growth of the big three leading production of the light trucks (Yacobucci & Cooney, 2006). Inclusive in the profile is employment shifts among companies, changes among States within the automotive

employment procedures. Additionally, there have been labor relations organizations divergence and the health/pension care issues.

### Industry structure

The industry has more than a million Americans as employees in the manufacturing motor vehicles, parts and equipments. There have been tremendous changes in the structures since the largest or the Big Three auto corporations inclusive of General Motors, Ford and Chrysler manufactured an overwhelming majority of motor vehicles plus light trucks to be on sale in the US market. By 2003, majority of personal cars sold in US market were either manufactured by foreigners within North American firms or imported (Yacobucci & Cooney, 2006). Apparently, the Big Three have been mainly dominant in producing light trucks hence they are receiving stiff competition from foreign brands. 600000US employees have been shed-off by the Big Three while about 300000 are employed by foreign owned companies.

### Analysis of the Five Forces of Michael Porters

#### Buyers bargaining powers

Establishment of strong relationship between buyers and the American Automotive Industry is very critical. Consumers are the key people that make the business to run. Basically, in this relationship between the industry and the ultimate consumers, the entire power axis should be tipped specifically to the favor of consumers. Consumers wield more power in this kind of relationship due to the relatively standardized automotive commodity nature, as well as the frequent switching of costs related to selecting a

product from the industry's competing brands. Nevertheless, the industry will remain marginally powerful because of the large consumer base in relation to the producer ratio (Porter, 1985).

#### Suppliers bargaining powers

In the relationship between suppliers and the industry, more power is bestowed substantially to the industry favor. Generally, the automotive industry involves powerful buyers who hold high abilities in dictating individual terms towards their suppliers. Automotive buyers will be considered powerful because of the absence of grand proliferation of companies' essentially manufacturing automotives. The main largest automotive companies within US hold approximately 90% of value shipments plus the value added in US. Secondly, the industrial powers will result from the automotive parts which are basically standardized commodities and they are mainly used in automobiles. Similarly, power to the auto industry buyers will emanate from backward integration occurrences (Schwab et al, 2004).

#### Competitive rivalry in the industry

Despite the observation of high concentration ratios within the US market which signify decreased competition level in the auto industry, rivalry in the global automotive industry and the US niche is extreme. The US automotive industry is currently not the playground of the largest three automotive companies inclusive of General Motors, Ford or the Daimler Chrysler.

Apparently, global auto motive companies are being observed competing in the US Market while at the same time US companies are getting globalized

(Porter, 1985). For example, in 1980s Japanese car manufacturers Toyota  
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and Honda entered a relatively disciplined US market. These companies have been very devoted in increasing their market share. Presently, great diversity of the rival firms on the basis of associated philosophies and cultures has increased the rivalry intensity in the Automobile industry. Market growth has been slowed down within the established US markets and this requires companies to fiercely fight to secure considerable gains or possibly avert likely market share losses.

#### New entrants' threats

Barriers to entry to the automotive industry have been substantial. New company requires very high capital and this makes establishment of the manufacturing capacity in order to attain minimum efficient scale very prohibitive. In addition, automotive manufacturing facility is relatively specialized and any failure can never be easily revived. However, though new companies entry barriers are substantial, major established companies are still venturing into new markets by application of strategic partnerships (Schwab et al, 2004). Additionally, entry is also being achieved through merging with other companies or buying out other companies. In fact, presently entry barriers to new markets have been quite low. For example, in 1980s, companies in the US practically welcomed Japanese makers to the US Markets after realizing the existing firms had failed to provide quality vehicles within lower price markets. Moreover, large automotive companies are apparently globalized and they have entered the foreign markets with diversified degrees of successes.

#### Threats from substitutes

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Substitute threats to American Auto Industry have been fairly mild. Many other types of transportation are readily available but none of them provide convenience, utility value or independence availed by automobiles (Schwab et al, 2004). Switching costs linked to employing a different transportation mode such as train can be high on the basis of personal time consumed. However, monetarily, the use of train as a mode fro transportation will be quite less expensive as compared to fuel costs consumed on same trips, car insurance, parking and maintenance. In global urban with high population densities, substitutes may include mass transit, bicycles, walking which are cheaper compared to the automobiles. For this reason, alternative transportation modes will always be preferred. Similarly, social or cultural attitudes may keep individuals from owning automobiles within some parts of the world. Other limitations or constraints to owning automobiles may involve an individual's class, religion, geography or race factors.

## Conclusion

The American Auto Industry has been observed to encounter various challenges within the Automobile Industry. Porter's analysis has provided an insight into understanding on strategic approaches viable tackling such challenges. In order to remain competitive the firm has to address the issue of new entrants into both potential as well as existing American market niche. Nevertheless, the firm has to marshal enough resources and similarly device effective strategies to fight the existence of substitutes in the market. In addition, the industry must address the suppliers and buyers bargaining powers whilst revisiting the issue on competitive rivalry from the Auto

Industry competitors venturing into the US automobile industry market. By <https://assignbuster.com/porters-five-forces-model-to-american-automotive-industry/>

addressing the current issues as evidenced under the Michael Porters evaluations, the industry will be efficient in the management of the daily operations. Eventually, the industry will secure a larger market and clientele base which will facilitate high profitability levels, consequently improving on the perceived industrial performance levels (Porter, 1985).