

# The global car industry-an analysis of macro environment

Business



First, the macro environment is analysed to point out some of the major impacts in the industry, revealing political and technological forces to be the driving forces of the industry. This is then followed by a competitive analysis of segments in the industry divided on the basis of various strategic groups. Such segmentation helps in grouping some of the companies and assessing the impact of key variables common in that segment. It is revealed that brand perception is a key mobility barrier that helps companies maintain their competitive advantage in each of the segments, by reducing threat of new entrants.

Following is the detailed analysis based on the above dimensions. Macro Environmental Forces on the Car Industry Particularly three trends can be identified to have major impact on strategy formulation for the 21st century in the industry.

First, there has been greater importance by governments of various countries to balance their ecological and economic objectives as compared to the past. Secondly, the economic downturn coupled with unemployment has led to a reduced consumer confidence. Lastly, the technological innovation has been quite rapid and extensive in the last decade.

The following paragraphs give a more detailed analysis of these trends.

Political Forces: The changes in government policies and legislation in certain western European countries will have significant impact on the level of demand in the industry. Some of these include the following location:

- Abolition of replacement schemes
- Environmental regulations

An important determinant of the attractiveness of any industry is the tax regulation under which it is operating.

As evident from the case some countries have differentiated tax structures for the car industry based on variables such as luxury, type of fuel etc.

Tax is a major source of revenue for any government, and its effects on the industry have to be accurately assessed. In addition, the abolition of replacement schemes by certain countries has also affected the industry. For example, the move by countries like Spain and France who have terminated the car replacement scheme has upset the replacement cycle putting a downward pressure on the demand for new cars. Also, there has been an increasing tendency by governments to focus on 'greener cars' i. e.

Environmental friendly cars.

There have been tighter regulations to control emissions as evidenced by Euro 96 norms. Hence, the companies that invest in technologies that reduce such emissions will gain significant competitive advantage. The above policies are essential factors to consider while formulating strategies in such markets, because they have a huge impact on consumer demand. Not only is the level of demand affected, but also consumer preferences are altered.

Technological Forces: The rapid development of technology in the past decade has had a major impact on the industry. There are two fold drivers in this development.

On one hand, it is driven by government regulations and policies and on the other through specialization in the various component manufacturing. The <https://assignbuster.com/the-global-car-industry-an-analysis-of-macro-environment/>

technology is becoming quite sophisticated, altering the entire value chain in the industry. This specialization is forcing car manufacturers to create strategic partnerships with suppliers for efficient and cost effective competitive advantage. For example, companies like Ford, are focusing on technologies that are “perceived” by customers to add value to the car, and are standardizing components that are not in customers’ eyesight. The reduction of car horns from 33 to 3, of steering wheels from 50 to 3, of batteries from 44 to 14 and cigarette lighters from 15 to 1 type is one such move by Ford. Technology has also brought about many functional changes such as improvement of engine system that help reduce pollution and smart cards implanted in engine management. Tanat are capable AT measuring ten quantity AT pollutants then be used to prepare individual tax bills. . Nine result can Another development has been the use of road-side sensors. These can be used for levying toll for road use during heavy congestion.

This raises several questions for the industry. What impact will such legislation have, if it comes into effect? Will it discourage consumers to purchase new vehicles and rely on public transport or car-pooling? Also, the advent of robots in assembling functions, is affecting the cost advantage of companies relocating to low labor cost areas, since there is very little cost differentiation. Another important issue has been fuel-source. In the future, companies need to invest in technologies to find new sources of fuel or on improving the aerodynamics of cars to reduce the fuel consumption.

Many companies are working on small electrical cars or trying to find some substitutes for petrol like Soya oil. In addition, companies will also have to

invest in technologies for reducing the fuel wastage due to evaporation during the refueling process.

Similarly, the governmental policies on 'green issues' and recycling of waste will also require car manufacturers, to invest heavily on technological innovation. Weight reduction, finding new composites for car bodies are the all the topics of further Such research is very costly and expensive for companies.

Hence, they have to find a solution to spread such costs. This can be done either through collaboration with others in the industry or government help, since it is beneficial for the entire industry. Not only will it reduce cost pressures, but also speed up the process by having technology and information. On the other hand if companies don't improve the mechanism of their engines to comply with environmental laws, they will be forced to leave the market or will have to spend an enormous amount for purchasing such technology.

All the above-mentioned factors have direct influences on the micro environment of the industry; innovating in new options or improving the technology of current systems will provide a huge value addition to a company. Socio-cultural Forces: One of the socio-cultural influences on the macro environment is the degree of 'nationalism' that prevails in a country. For example, there is a high degree of nationalism in Germany; it is important for many Germans to have German manufactured car. Such prejudice can reduce the share of foreign companies in Germany's market.

Germany is the largest market in western Europe.

Hence, it is essential to ask the question that what strategy is required to sell in such a market – whether through joint ventures, acquisitions or setting up a manufacturing unit? Economic Forces: Economic factors like the increase or decrease in GDP and GNP, job security, interest rate always have a major influence on car industries. Cost of labor is another important factor. High levels of unemployment and lack of job security reduce consumer confidence, inversely affecting demand.

Slump in GDP creates high instabilities in markets. For example, the GDP declined by 8.

2% in Russia in 1998 along with the currency devaluation of about 67%. Such drastic economic downturns can hugely affect the industry. Although cheaper currency is good for a country's exports, it does create market instabilities and reduces buying power, causing severe damage to the industry environment. However, the following chart on forecast of production clearly shows that Russia is the largest producer among the Eastern-European countries. Data Source: Potter, N. Global Car Industry – Preparing for the 21st century.

This raises serious issues of matching production capacity and supply with demand, due to poor economic environment in Russia. Segmenting the Industry The above few paragraphs have given a detailed overview of the macro environment affecting the global car manufacturing industry. Since the industry is so complex, it is necessary to segment it on various

dimensions. This will help to further analyses the industry and gain a better understanding of the major issues and attractiveness of he industry. The various strategic groups in the car industry can be segmented based on the following three dimensions: Stage 1: Geographical Spread v.

Product Range The three major segments in this chart are as follows:

Segment 3: As mentioned in the case (Potter, N. , Global Car Industry – Preparing for the 21st century), the two global players in the industry are Toyota and Ioniacs. Both have Dorsa product ranges. For example, layout not only NAS I competes in the smaller car segment.

TTS Lexus Drain out also Segment 6: The three major players in this segment are MM, and Ford. Not only re they international players, but also have broad product range. For example, Ford has acquired the Mazda cars, Gaston Martin and Jaguar brands in Europe.

Segment 8: This segment has mainly Fiat and AS brands. Both are domestic players, with a very narrow product range.

Fiat's, attempt to move up market has been largely affected by its manufacturing capabilities. Global Stage 2: Brand Perception v. Product Positioning The four major segments in this chart are as follows: Segment 3: This segment has mainly two players: BMW and Mercedes-Benz. Both companies are in the luxury car market and have very high brand perception. They re trying to enter the volume car segments, Mercedes through its merger with Chrysler and BMW by trying to revive Rover.

Segment 4: The two major players in this segment are Volvo and Renault. Both have a medium brand perception and are functional cars. For example, Renaults Escape has been highly successful as a family vehicle. Segment 5: This segment's major player is GM, which has a medium brand perception and some product differentiation. It is trying to move into the higher segments through its luxury car models, like Lotus and Saab. Segment 7: Fiat has a low brand perception due to issues with its quality, reliability ND service.

As such it is facing quite a challenge in competing in the higher segments.

High Stage 3: Competitive Advantage v. Growth Method Segment 2: Renault seems to have created an edge for itself in this segment. Through its investment in R&D to combat environmental issues it has given its cars a higher added value. It also has an alliance with AS to supply gearboxes. Segment I en two major players In tens segment are Volvo Ana Mercedes some differentiation and use alliances as a means to grow.

For example, Vole's merger with Mediumistic is its attempt to compete in the higher segment. Segment 9: This segment's major player is Ford.

Not only is it trying to achieve cost leadership by pursuing a goal to reduce its manufacturing cost to 10% of the total cost, but is also trying to gain international territory through acquisitions. Analysis of Stage 2 Map The following is a more detailed analysis of the industry as segmented in the Stage 2 maps. The analysis focuses on mainly three of the following issues: \* Effects of three environmental forces on segments 3 and 5 \* Attractiveness



of segments 3, 5 and 7 based on Porter's five force model \* Mobility barriers between segments 5 and 7

Effects of three environmental forces on segments 3 and 5 The forces that have the greatest impact on the segments 3 and 5 are: \* Technology \* Politics and Economics \* Socio-cultural (Consumerism) Technology: The most important factor affecting the car industry can easily be considered to be the technological development. It has been the main driving force for gaining a high position in the car industry because it affects the safety, automation of driver systems, durable parts and other main component parts of a car.

Luxury and high brand perception cars such as BMW and Mercedes have continuously invested in the placement of high-end technologies and customers have formed an image about these cars, not only of safety but also of high value and luxury cars. Customers can easily identify how sophisticated technology makes a good car; and are also aware of the cost implication of such sophistication. On the other hand, Renault and GM tend to develop new models in the market rather than concentrating on their technology in the specific model. Product differentiation might meet various customers' inclination.

However, it proves to be a challenge in creating a high brand perception since there are no specific models that deliver high technology.

Politics Ana Economics: Car industry has huge scale and capital investment. As this case report mentioned, car manufacturing has been regarded as " the industry of all industries. " Therefore, governments are very keen on the

car industry movements as it is highly linked with the movement of economy in a country. Also, disposable income is significant variant that drives consumer spending. As mentioned in the case, for every 1% increase in average earning, car ownership rises by 2% (Potter).

In addition, there is an over capacity in the car industry because of the pro union isolation, pressuring manufacturers not to rationalize their operations. The following graph shows the real growth rate along with GAP/Head in Western Europe from 1990-1998. It is evident from the following graph that although there is a rise in GAP/Head, the real growth is positive but has been rising at a declining rate, which reduces buying power. GM has medium brand perception with some differentiation in the volume markets, to maximize economies of scale.

Hence, it will have a greater impact of such slowdown, compared to BMW and Mercedes.

Chart 2 Socio-cultural (Consumerism): Once an image is formed, it is difficult to change. Even mass psychology has a great influence in buying power in the marketplace. BMW and Mercedes have already formed a luxury car image for the customer; which, has been well maintained by them. Such image continues to affect the brand perception. In comparison, GM and Renault have a relatively lower luxury car image with medium brand perception in the marketplace.

Therefore, for BMW keeping brand image and lifetime customer relationships is an important factor in marketing strategies, while GM and Renault need to create a new brand image to attract the customer unconsciousness.

Another, important factor in favor of BMW is the sentiment of nationalism in Germany, which also happens to be one of the largest markets in Western Europe. Hence, BMW, being a German made car has a huge competitive advantage over its rivals. The Chrysler-Benz merger can give GM a break into the German market.

The following graph shows that, among the western European countries the largest market is that of Germany followed by France, I-J, Italy and Spain.

Attractiveness of segments 3, 5 and 7 based on Porter's five-force model  
Porter's five forces model aims to examine the profitability of an industry by valuating five competitive forces.

These include threat of new entrants, bargaining power of buyers, threat of substitutes, bargaining power of suppliers and competitive intensity. The following analysis, based on the above model compares the attractiveness of segments 3, 5 and 7 on the stage two map (as detailed earlier).

Please see Table 1 1, which lists a number of key structural variables to determine the strength of each of the competitive forces. The detailed analysis is as follows: Threat of new entrants There are four major variables included in the analysis of this competitive force, which are economies of scale, differentiation, capital requirement and switching cost. For segments 3 and 5, which represent luxury high brander and differential medium brander

respectively, their threats of new entrants are low, since four variables are high or medium compared with segment 7.

Oppositely, for segment 7, which represents functional low brander, the threat of new entrants is high because of the lower level of all of key variables except for economies of scale. Bargaining power of buyers There are five key variables used to determine the strength of this competitive erasure, which consist of concentration of buyers, volume of purchase, differentiation, integration threat and buyers' knowledge. It is high in segments 3 and 7 because of the lower level of buyers' concentration, volume of purchase, product differentiation and integration threat.

For segment 5, the situation appears to be different. Three variables, such as concentration of buyers, volume of purchase and buyers' knowledge, are at the high level, which indicates the low bargaining power of buyers in this segmentation.

Threat of substitutes Three determinants are included to examine the strength of threat from substitutes, which are the availability of credible alternatives, rate of improvement and degree of overpricing. In segment 3, there are fewer credible alternatives available. Additionally the degree of overpricing is not high. Therefore the threat of substitutes is low.

In segments 5 and 7, the higher availability of credible alternatives and lower rate of improvement determine its high threat of substitutes. Bargaining power AT suppliers This force contains five key determinants as shown in the table.

In segments 3 and 5, the bargaining power of suppliers might be low due to the high level of switching cost and the importance of customers. However, it might be high in segment 7 because of the lower level of these two key elements. Competitive intensity There are six key variables to evaluate the strength of this competitive force as shown in the table.

Three segments have the same high level of competitive rivalry. The reason can be easily seen that all of them have the low growth rate and high number of competitors, switching cost and exit barriers.

Although there are fewer rivals in segment 3 compared with the other two segments, its competitive intensity may still tend to be high due to the size and concentration of buyers they serve. Some variables listed in Table 1 have not been used to analyze the strength of each of competitive forces, because there is a lack of necessary information or not relevant to the discussion.

Mobility barriers in between segments 5 and 7 Based on the thorough discussion on the stage two map of strategic groups within the car industry, GM was classified into segment 5 that represents differential medium brander and Fiat into segment 7 that represents functional low brander. As far as mobility barriers are concerned, it may consist of reputation, product range and brand perception between these two segmentations. To extend this in detail, if Fiat tries to enter the strategic group of MM, it would need to improve its reputation for quality, service and reliability by enhancing its manufacturing skills.

This is essential since it currently lacks of manufacturing skills which has tampered its reputation on these aspects. In addition, it will need to position itself differently by creating some product differential to a certain extent.

Another barrier for Fiat is distribution, for it mainly focuses on domestic market. If it wants to move to segment 5, it may develop its distribution channel to expand its business outside of domestic market, which could help improve its brand perception to medium level.

**Conclusion** An analysis of the macro environment of the global car industry poses many challenges. Hence, a segment wise analysis helps to understand the nature and impact of the various forces.

The industry is a major contributor to any country's economic activity. The analysis reveals that the most important forces impacting the industry are technological and political. Hence, it is necessary to take the effects of these two forces into consideration, while terminating any strategy in the industry.