

Mercedes benz pest analysis



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Political

Taxation system would be one major political factor that affects imported car industry. The import duty for cars will be charged from 140% to 300% based on the engine's category and tax is calculated based on car's cost, insurance and freight [Royal Malaysian Customs & Excise Dept, 2000]. This is a threat for the imported car industry, because the prices of imported car will be more expensive than local manufactured car. Besides that, government policies would be another key factor, foreign firms can manufacture luxury cars locally on 31 December 2015, AP no longer needed [New Sabah Times, 2009]. The opportunity occurs when foreign firm can reduce their manufacturing cost and time. Previously, foreign firm need to import car's parts from overseas by 18 months' time. Meanwhile, government subsidies can affect the selling in car industry. Since Malaysia is ranked no. 23 in the world as a crude oil exporting country the government subsidizes a lot on crude oil by the revenue from PETRONAS and it makes Malaysia ranked no. 16 as the cheapest crude oil price in the world. As we know, crude oil and automobile are complement, so it makes Malaysian is not a big burden to own a car. This is an opportunity for automobile manufacturers to sell their product in the market because the expenditure to own a car in Malaysia is not high.

Economic

Economical factors would be directly affecting the selling of the product. Exchange rate between Euro and Ringgit Malaysia may affect the price of imported cars. It makes the European car more expensive when selling in Malaysia due to the currencies exchange rate as RM4.36 per '1 [Friday, <https://assignbuster.com/mercedes-benz-pest-analysis/>

2010]. This is a threat for automobile firms that import cars from European market, because the price of imported car will be higher than local manufactured car. Economic slowdown in Malaysia would be a factor that decreases the buying power of consumer due to the decreasing of income and probably unemployment. In 2009, Malaysia has a GDP growth rate of -1.7%, the lowest growth rate for more than a decade [World Bank national accounts data, 2009]. Car manufacturers are finding it increasingly difficult to sell cars with the low GDP growth, the threat occurred. Besides that, inflation will affect the spending habit of people. It makes people have less money to spend because the prices of goods are going up, causes great impact for the sales of car manufacturers. The inflation rate of 0.6% has decreased 4.8% compared to previous year. But, the increasing price of raw materials and the reducing buying power of consumers will decrease the profit of car manufacturers as a threat [IndexMundi, 2008]. Company needs capital to invest by having loan from bank in order to expand or looking for bigger profit. According to the information that has gathered, Malaysia interest rate had increase 0.25% from 2.5% to 2.75% on 8 July 2010 [World Interest table, 2010]. The higher interest rates may causes firms deter investment because it costs more to borrow. It would be another economical threat.

Social

In social, income can reflect different social categories. People from high income category usually buy luxury car as the sign of prestige. This would be an opportunity for luxury car” s manufacturers to sell their product to the high income category. Besides that, there is a car owning trend in Malaysia. Almost everyone who got a driving license would own a car if their family is

affordable, because the expenditure to maintain a car in Malaysia is low compare to most of the country in the world. In fact, Malaysia ranked no. 3 in the world as one of the highest motor vehicles owning rate in the world with 641 motor vehicles per 1000 people due to the statistic research from United Nation [CIA World Factbooks, 2008]. This is opportunity for car manufacturers to sell their product in such a high demand country. The standard of living of Malaysia is considered in higher position in the world. It can influence the buying habits of the people of the country. Therefore, people will prefer to buy a safety car with lots of advanced safety feature in order to minimize the impact from car accident. As we know, European cars are famous in safety technology. It is opportunity for European car” s manufacturers to satisfy the consumer needs. Population growth rate of Malaysia has decrease compare to previous year. It decreases from 2. 01% to 1. 72% from the year 2000 to 2009 [United Nations Population Division, 2009]. It would be a threat as it affects the car demand in the country due to the decreasing growth rate of population.

Technological

Technology of foreign car manufacturers always influence by its mother country. Luxury vehicle division such as Mercedes Benz, BMW, and Audi are based in Germany. Germany is regarded as the most environmental practice country in the world. It encourages the nation to incorporate research and development toward eco-technology. The available of Hybrid technology in Germany make the German manufacturers successively launch the hybrid cars because the world demands are increasing especially the demand in US market had increased sharply by 9. 2% compare to previous year [May 2010

Dashboard: Hybrid Car Sales Rebound, 2010]. Meanwhile, scientists in Germany had unveiled the latest self-driven car on October, 2010. This driverless technology can slash accidents and help the environment. It is a great innovation in car industry. This German technology gives a lot of benefits to the German manufacturers. The availability of driverless car technology for German car manufacturers can attract new customers market and also outperform other competitors which not available for this stunning technology, because this innovation offers a better quality product [Staff Writers Berlin (AFP), 2010]. Besides that, the available technology of ICT with increasing number of internet users makes car manufacturers easy to advertise their advertisement and release any latest news and information on net. There are 1.9 billion of internet users nowadays, increased by tremendously 44.8% compare to past 10 years [Internet usage statistic, 2010]. This technology can benefit either customers or manufacturers due to information gather rate is higher than previous. Basically, all the technological factors are opportunities to firms.

Porter” s 5 forces describe the threat of new entrants, bargaining power of supplier, bargaining power of buyer, threat of substitute and competitive rivalry.

Firstly, the threat of new entrants for Mercedes-Benz in this industry is at low risk because it is luxury goods and hard to set up and climb to such a high prestige level. Furthermore, the cost to set up in this segment is high because Mercedes-Benz is a luxury car and entrants towards this segment require a large amount of capital [David Highfill, 2004]. According to customer retention study, Mercedes-Benz has climbed its customer retention ranking from No. 4 in 2008 to No. 1 in 2009. It shows that customer loyalty to

Mercedes-Benz is increasing. It's very tough for new entrants in car industry to compete with Mercedes-Benz. Therefore, the threat of new entrants for this automaker giant is very low.

Bargaining power of supplier is low in this industry because there are lots of substitutes for suppliers while automakers are limited as a customer of supplier. Most of the suppliers rely on one or two automakers to buy majority of their products. If Mercedes-Benz decided to switch suppliers, it could be devastating to the previous supplier's business. Besides that, Mercedes-Benz has a higher profitability than the supplier. As a result, suppliers are extremely sensitive to the demands and requirements of the Mercedes-Benz and hold very little power to bargain.

The main factor of bargaining power of buyer is based on number of buyers and number of seller. In automobile industry, the buyers are always more than the seller. There are few luxury car firms in Malaysia such as Mercedes-Benz, BMW, Audi, Volvo and Lexus, but the buyers of luxury car are estimated around 9780 in 2009. Another factor of bargaining power of buyer is the volume of buyer consume. As we know, normal buyer would not consume large quantity of Mercedes-Benz's car. Basically, Mercedes-Benz manages to limit the bargaining power of buyer. However, luxury car is not extremely important to normal buyer, but luxury good seeker. Therefore, only the buyer of luxury car holds very little power to bargain.

Threats of substitute for Mercedes-Benz are various. Competitors' product would be substitute for Mercedes-Benz product. There more than 30 car brands that selling in Malaysia might be a threat as substitute for Mercedes-

Benz” s product. According to the customer retention study, Mercedes-Benz has crowned to be No. 1 in customer loyalty. The threat of substitute for Mercedes-Benz in car industry seems very low. Besides that, alternative transportation would be another substitute threat. There is a lot of alternative transportation to substitute Mercedes-Benz such as bus, taxi, train and airplane. Alternative transportation is a factor which needs to be considered highly to mark up the selling of Mercedes-Benz. The price of gasoline has a large effect on consumers” decision to buy vehicle. People will look for alternative transportation when the price of gasoline increases. Despite that, the threat of substitute is low due to the inconvenient public transport in Malaysia and Mercedes-Benz mainly targeted high income social category as their main customers. In fact, the increasing in price of gasoline would not affect luxurious goods seeker” s buying decision.

Highly competitive industries generally earn low returns because the cost of competition is high. The auto industry is considered to be an oligopoly, which helps to minimize the effects of price-based competition. There are only few competitors in the luxury car market segment. These main competitors of Mercedes-Benz are Audi, BMW and Lexus. In fact, Mercedes-Benz has dominated 49% of the car market share in Malaysia. In 2009, Mercedes-Benz sold 3903 passenger cars, which is No. 1 in total passenger car sales in Malaysia within the luxury car market segment. Historically car manufacturers are tried to avoid price-based competition. In this mature industry with very little growth, companies can only grow by stealing customers away from competitors. Companies usually lure customers by giving rebates, preferred financing and long-term warranties. However, the

differentiation between competitors” product and services are small. Similar product might increase the intensity of competition because they are offering same product value. Therefore, they will compete in terms of spending of advertising, ethic and technology innovation. As a conclusion, the domination of Mercedes-Benz in car sales shows that the intensity of competitive rivalry is low for the manufacturer.