

Essay on automobile industry bmw

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Automobile Industry: BMW

Introduction

The automobile industry is a very lucrative sector in terms of revenue when economies of scale are taken advantage of. It involves designing, developing, manufacturing, marketing, and selling motor vehicles (Datamonitor, 2011). More specifically, in the US a quarter million vehicles are in use and globally 806 million are on the road according to 2007 automobile production statistics (Automobile Industry Profile, 2011; Table 2). The same trend has resulted to an average growth of 0.8% as shown in table 1 below.

Figure 1: Percentage growth of automobile industry between 2006 and 2010 (Source: Datamonitor, 2011)

Figure 2: Volume of automobile Industry from 2007 (Source: Datamonitor, 2011)

These vehicles consume a lot of gasoline and diesel mainly because they are the primary mode of transportation in many economies. The economies that are currently in the lead in manufacturing automobiles are Japan, USA, and Germany. However, it is estimated that by 2014, the trend would shift to the BRIC countries (Brazil, Russia, India, and China) mainly because of their increasing demand of automobiles. The top manufacturers—Ford, General Motors, Volkswagen, BMW AG, and Toyota—have been embroiled in a fierce competition since the onset of globalization. Competition has even made it difficult for new entrants in the industry to successfully carry out their operations and make profits. Therefore, this paper will examine BMW AG and its competitive environment using Porter's five forces.

BMW AG Overview

The company called Bayerische Motoren Werke is a leader in production of quality cars and motorcycles in Europe and America. Headquartered in Munich, Germany it employs approximately 96, 000 staffs and earning margins of \$80, 300 million as of the year 2010 (Datamonitor, 2011). The graph 1 below shows the increase sales margins of BMW brands between the fourth quarter of 2009 and 2010; hence an increase in profit margins.

Graph1: US volumes between 2009 and 2010 (Source: BMW group)

The profit was an increase of 19. 3% compared to those received in the previous year (2009). Since the year 2000, the company expanded into motorcycles and quality cars and left alone the aero-engine segment. The leading brands are MINI, BMW series, and the Rolls Royce. The SWOT analysis below highlights the current position of BMW in the market.

Strength

Strong brand image for MINI, BMW, and Rolls Royce.

Large manufacturing and distribution system.

Heavy investment on Research and Development.

Expanding operation performances

Weakness

Recent recalls on motorcycles have negatively affected brand image.

Unfunded pensions could affect liquidity of company.

Heavy debt limiting future growth.

Opportunities

Benefit from growing demand for cars in BRIC economies.

Expanding market of motorcycles.

Alliance with Peugeot.

Demand for eco-friendly automobiles.

Threats

Foreign currency fluctuations may affect earnings.

Very competitive automobile industry.

Environment regulations affecting manufacturing procedures.

Analyzing the competitive environment of BMW using Porter's five forces

The three segments that the automobile industry engages in are passenger vehicles, truck vehicles, and motorcycles. The passenger vehicle segment is the most lucrative contributing to approximately \$1200 billion in 2010 (Automobile Industry Profile, 2011). This has made every automobile manufacturer to customize their strategy to take advantage of the lucrative segment. The competition has been fierce as a result of the change in strategies. Porter's five forces are crucial in determining the attractiveness of the automobile industry through analyzing the competitors (Hill & Jones, 2009). The competitive analysis would enable proper understanding of the relationships and dynamics of the automobile industry, and allows any company to make long term decisions that would be beneficial economically. The five forces are threats of: new competition, substitute product, buying power, supplier power, and competition intensity.

New competition threat (Very Low)

The threat of new entrants is very low because the top manufacturers like Toyota, Volkswagen, General Motors, Ford, and BMW have already set up operations and are very competitive. The low threat is contributed by the fact that new entrants would require intensive financial resources and capital to come up with updated technologies and machinery that would enable new entrants to come with offerings that would match the models of the mentioned companies. Furthermore, a new entrant would find it hard to market its product because the BMW brand is well recognized hence the reason why the threat is low.

Furthermore, new entrants would also find it hard to enter foreign markets because some governments have started getting involved with their local automobile industry. This is because importation of cars has been seen to be avenues of negative payment; hence through subsidies governments encourage the growth of local auto-industries (Rice, 2010). The local government regulations are barriers of entry for foreign auto makers since their products would be more expensive to sell in the foreign market.

Also, local producers would have barriers in entrance through economies of scale. In the initial stage of starting the company, the sales might be less hence low profits or even loses might be achieved. Furthermore, the successful auto industry might make it hard for new entrants to obtain raw materials through making it mandatory for bulk buying, which is very capital intensive.

Supplier power (Medium)

The supplier power is high because there are some smaller automobile parts suppliers who have no say on the distribution and pricing of the product, while there are larger suppliers who have a say into the pricing and distribution of the product. However, there are few small suppliers because of the high quality parts required in automobile production. This makes it possible for large scale suppliers to dictate pricing and distribution. This has resulted in many auto-makers integrating suppliers as partners or merging with them. However, some automobile makers have resorted into dual sourcing where they depend on numerous suppliers, hence lowering their power. This makes the supplier power medium.

Buyer Power (High)

The buying power is high in the automobile industry mainly because they affect the immediate performance of a company. All products even those of premium quality like for BMW can be bought by clients who are loyal to certain brands. Therefore, aspects that buyers look when buying cars are quality, environmental factors, fuel consumption, price, and appearance. Moreover, buyers are always looking for innovative models hence the reason they dictate the pricing, and type of vehicle manufactured.

Substitute Threat (Very High)

There are very many substitutes for BMW cars which include public transport, boats, and even trains, making the threat of substitutes very high. The force of substitute threat is very real because high prices of automobiles might even force people to walk or use bicycles. The factors that must be

considered by automobile industry in placing costs include: fuel cost, innovation, status, and even convenience. Therefore, in considering these factors other automobile companies and BMW can overcome the threat of substitute products.

Competition Intensity

The automobile industry has a very high competition environment which is not dependent on price. Companies like BMW compete on levels of quality and strength of brand making competition very fierce. The high competition is attributed to increased globalization and large availability of customers.

Summary of BMW's Porter's Forces

The figure below shows the summary of porter's five forces in BMW. They are:

Figure 3: Porter's Forces of BMW showing the external environment of the automobile industry.

Recommendations

It is important to note that for a company entering into the automobile industry, the passenger vehicle segment is very lucrative. However, the barriers of entering the industry based on potter's force analysis of BMW are:

Very high capital requirements and financial resources

Lengthy time for building a well-known brand

Dependence of economies of scale which may make large players dictate prices of raw materials

Strong brand loyalties which are difficult to break despite their high cost

Threat of cheaper substitutes like public transport, bicycle, and boats.

Therefore, for a new company trying to enter the automobile industry (secondary industry), it is recommended that:

The company to conduct a survey of customer needs so that they can place a price on vehicles, which would reduce the threat of substitutes.

The company to specialize on production of fuel saving vehicles so as building a brand in which they will be associated with.

Investing on an R&D department that will spearhead innovations, which will make the company more competitive.

The company to work with numerous suppliers of raw materials so that they are not dependent on price controls of suppliers.

Conclusion

It is important to note that BMW is a leader in production of quality vehicles and motorcycles that are considered luxurious since 2000. They have built the brand over the years making them become so competitive. However, from Porter's five forces analysis it is important to note that the forces, which are very high are threat of substitutes, and competition. The buyer power is seen to be high because they determine the sales of vehicles produced.

However, the supplier power is medium because of the option companies can take by sourcing from numerous suppliers to reduce supplier power.

Lastly, the threats of new entrants are very low mainly because of the high initial capital required in starting an automobile industry and coming up with

a brand matching the already known in the market. Therefore, a company wanting to enter the industry will experience many barriers unless they implement strategies that BMW has insisted on

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