

Strategic analysis automobile industry essay sample

[Business](#), [Company](#)



This assignment will focus on BMW as a whole. BMW is a Public Limited Company (PLC) in the Private Sector and their main objective is to make profit and cover their costs. A board of directors undertakes the day-to-day running of BMW. Being in the private sector they raise most of their capital through the sale of shares and of course their cars.

Using a PESTAL Analysis, Porter Five Forces Framework, Resource Audit and a Value Chain Analysis recommendations will be made to BMW about any opportunities or possible threats there are in the car market.

Key Factors Affecting BMW

There are many factors that are affecting BMW's current situation (see Appendix 1, 2, 3 and 4), however the focus in this section of the assignment is the main factors from each of the analysis that have been completed.

The following information was collected using the PESTAL framework. " The PESTEL analysis categorises environmental influences into six main types, political, economic, social, technological, environmental and legal. It is particularly important that PESTEL is used to look at the future impact of environmental factors, which may be different from their past impact" (Johnson and Scholes 2002).

Environmental Influences

Political

" The Government's own analysis shows that keeping motoring costs constant, by increasing fuel prices, will help it meet its targets to reduce

congestion and pollution' (Friends of the Earth, 2003). With an increase of prices customers will change to fuel-efficient cars, BMW must take note of this and manufacture those types of vehicles" (Appendix 1). Currently BMW's have large litre engines making them expensive to run.

Economic

" The table below shows that consumer expenditure and savings have been growing in real terms since the mid-1990s along with PDI". This means that the general public has more disposable income to spend on items such as cars.

PDI, consumer expenditure and savings, at 1991 prices, 1991-2001

PDI Consumer Savings Savings GDP

Expenditure Ratio

£Bn Index £Bn Index £Bn % Index %

1998 582. 50 143 545. 12 148 37. 38 6. 4 843. 73 145

1999 609. 30 150 574. 56 156 34. 74 5. 7 871. 57 150

2000 (est.) 640. 04 158 607. 76 165 32. 28 5. 0 915. 28 157

2001 (fore) 673. 78 166 634. 83 172 38. 95 5. 8 961. 06 165

(Mintel 2003)

(For full table see Appendix 1)

Social

“ BMW is to create 700 more jobs with a further investment of £50m at its Mini plant near Oxford (Bized 2002)” (Appendix 1). This will increase productivity for Mini and it shows that BMW is an expanding business, which is good news for its shareholders. It should also help to keep its image high as any company that boosts employment is always seen as a positive input in to the community.

Technological

“ If BMW can convert Europeans to automatic cars then they will be able to cut costs, as they will only be making one type of transmission. For the customer a reduced cost in the transmission system, will thereby reduce the overall cost of the vehicle” (Appendix 1). As I have said above standardisation reduces the overall costs but it also reduces choice for the consumer.

“ Using the latest computer technology to create virtual BMW's means they do not need to test, for example, structural problems on a mock up car” (Appendix 1). To introduce this technology probably cost BMW a fair amount of money but the benefits out way the cost. It is far cheaper to test hypotheses and theories on a computer generated vehicle than on a test car. It should also decrease the time it takes to create new vehicles.

“ A new type of fuel has been introduced it is called Liquefied Petroleum Gas (LPG). A litre of LPG allows a vehicle to travel around 80% of the distance it

could travel on a litre of petrol. If BMW could alter current car designs in order to use this fuel, customers would buy it because the operating costs would be lower than driving a conventional petrol car” (Appendix 1). Not only are there benefits in terms of lower costs for the customer, LPG is also kinder to the environment.

Environmental

“ Carbon Dioxide is the most significant of the greenhouse gases contributing to Climate Change. Cars are thought to make a significant contribution to overall emissions of CO₂ in the UK (Vehicle Certification Agency 2003). Basically if BMW can keep their cars CO₂ levels as low as possible then their damage to the environment will be low” (Appendix 1). Watching out for the consumer or Social Responsibility is seen important in the eyes of the public, if they can keep their CO₂ levels low then the environmental groups will see they are trying to do a good job in the environment and BMW’s image will increase.

Legal

““ European legislation sets tougher emissions standards’ (www. aecc. be 2003) BMW will have to comply with this as it is Health and Safety law” (Appendix 1). Increased costs as BMW will have to spend more money on Research and Development to make sure all the vehicles they produce comply with European standards.

All of the above BMW has little or no control over so it is wise that they have a plan or an idea to counteract any problems that could arise in the future.

Competitive Forces

The five forces framework was used to gather information on BMW's current competitors and any new competitors that may enter the industry. "The five forces framework helps identify the sources of competition in an industry or sector. Although initially used with businesses in mind, it is of value to most organisations" (Johnson and Scholes 2002).

Threat of New Entrants

"However if an established car producer decides to introduce a car into the luxury market using unique strategies then there is little BMW can do about it" (Appendix 2). This is a very scary prospect for BMW because potentially any of their competitors in the market today could create a luxury car and then end up competing with BMW head on.

The Threat of Substitute Products or Services

"There are many other manufactures of cars which compete with BMW, for example, Mercedes, Volvo and Lexus to name but a few but as long a BMW can be seen different in the eyes of its customers then they are unlikely to be substituted" (Appendix 2). Currently BMW are trading on their brand image and as long as that is not damaged then customers are likely to remain loyal.

“ The threat of substitutes is rising because of the Government’s support for light rail and the EU’s pressure on fuel emissions. The UK will always have a strong loyalty to the car but the market could decline if rail becomes more competitive” (Appendix 2). In the future BMW may not be competing with just other car manufactures but they maybe completing with public transport as well.

Competitive Rivalry

“ Volkswagen (VW): who own amongst other things Audi, which directly competes with BMW”. BMW will be very interested in keeping an eye on Skoda (owned by VW) because they have launched the Superb, which is yet another car in the luxury market.

“ Daimler-Chrysler: Mercedes are included within this company. It was Daimler-Benz that purchased Chrysler and in doing so ‘ left smaller, specialised carmakers looking vulnerable’ (Lencioni, V 2001)” Appendix 2). Mercedes in particular are changing the level of technology in their vehicles; they are adding more gadgets in order to appeal to the very wealthy customers in the luxury market.

Jaguar: are launching a diesel car and they came top in the BBC Top Gear Customer Survey (covering factors like reliability and customer support etc), this shows Jaguar (under Ford ownership) are continuously improving their vehicles, which directly competes with BMW.

The target audience that buys BMW's want BMW to supply the best quality, reliable, luxury cars to the higher end of the market. These are known as critical success factors, "critical success factors are those product features that are particularly valued by a group of customers and, therefore, where the organisation must excel to outperform competition" (Johnson and Scholes 2002).

BMW can either lead or follow in the market. However the choice is not entirely up to them because of consumer spending and other such factors that they have no control over.

Internal Factors

Two frameworks were used to identify BMW's internal factors, these were the resource audit and the value chain analysis. "A resource audit identifies and classifies the resources that organisation has, or can make use of to support its strategic aims and objectives" (Johnson and Scholes 2002). "The value chain describes the activities within and around an organisation which together create a product or service" (Johnson and Scholes 2002).

See appendix 3 and 4 for more information.

Well skilled people - the use of well skilled people should lead to a better quality car, however skilled people are more expensive than low skilled people or assembly machines.

Patents - BMW must make sure they renew and patent new technologies, this gives them a competitive advantage which helps them stand out from the opposition.

Strong brand - any company wishes to have a strong brand because this lead to loyalty and repeat purchasing. Branding is incredibly important as “ the ease of identification of the product as the point of sale and the connotations of quality and familiarity” (Brassington and Pettitt 2000). Strong branding leads to loyalty to the company and in the future repeat purchasing.

Outbound Logistics - “ BMW transports their own vehicles via shipping and lorry to their intended destinations” (Appendix 4). This gives BMW control over all the operations but it also leads to high costs in terms of lorry maintenance, driver wages etc.

Marketing and Sales - “ BMW’s were mainly recognised as performance cars that, reflected the models imported in the 1970’s. A secondary objective was to improve BMW’s reputation as prestige vehicle manufacturer” (Appendix 4). Without advertising it could be argued that BMW would not exist today, they require it to keep their customers up to date with their latest cars and to get new customers interested in their products.

Service - “ They have an inventory of spares in order to do their job efficiently and effectively” (Appendix 4). It maybe effective and efficient but it costs BMW money in terms of storage/warehouse space.

Technology Development - " BMW have changed to creating ' the most relevant and thoughtful technology', the Japanese especially have utilized the latest technological advances in their vehicles" (Appendix 4). If BMW does not keep up with what others manufactures are doing then they are likely to loose sales to their competitors.

BMW has control over its internal factors and should therefore try to make sure everything runs as efficiently and effectively as possible.

Recommendations

Analysis of BMW's objectives:

- 1) To make a substantial profit. Compared to their competitors they are making more profit per vehicle, but their competitors are making more vehicles in total.
- 2) To plan and undertake staff training so that their company can be a successful competitive business in their market. As they employ highly skilled staff they are giving their business a reputation for quality and reliability.
- 3) To generate shareholder value by seizing opportunities in the market world-wide, building on their current business and focusing on high growth segments, while playing their part in the community and achieving the highest standards of integrity, customer satisfaction, and employee motivation. Except for the Rover crisis, which was the biggest problem BMW

has faced in a long time, they appear to be trying to get into the American market, which will give them access to a relatively untapped sector.

4) Committed to fair-trading and aim to follow the best sales and marketing practice. They have not had many problems in terms of sales and advertising.

5) To achieve best practice in their standards of business integrity for all of their activities around the world. They are seen as a company that provides quality luxury vehicles.

On the face of it BMW does not seem to have anything to worry about, this is not true however here are number of recommendations for BMW to take into account:

Porter Five Forces Framework shows us they must keep an eye fixed on the competition. They are in a highly competitive market and practically the only thing differentiating them from their competitors is their brand name. As the larger firms have bought a lot of the smaller companies, BMW is on its own now. They are at risk of being bought out themselves, but luckily they have a large loyalty base, which should keep them in business.

BMW's current strategy is to manufacture luxury cars. Maybe they should also branch into other segments, for example, when Mercedes created the A-Class Hatch Back. They have already started by creating the Mini, but that is only a start, if they could make luxury cars for both businessmen/women and, for example families, they would have entered a totally different

market. Relying on just the luxury car market is risky and apart from specialist car manufacturers BMW is practically the only firm that does only operate in one market.

BMW needs to constantly monitor the critical success factors because they need to outperform in each category (reliable, quality, luxury cars) in order to surpass their competitors and become the market leader.

BMW could use the Internet to sell directly to the consumer, giving them more control over customising their vehicle. This has been recommended, as there is a law that has been passed which says no car garage can be exclusive to one brand of vehicle, whereas the Internet can.

In terms of advertising BMW could, for example, focus on safety in their cars or place their Encap results in the commercial. This would tell potential and current customers that they are attempting to out perform their competitors in terms of the critical success factors (providing luxury, quality, reliable cars), they would also stand out from the competition as no other luxury car company shows this type of information in their advertisements.

If they do not have a plan to counter act any problem or opportunity that could arise in terms of competition or technological advances etc then they should create one immediately.

Lexus are trying to get into the company car market using the skills they have developed for making low cost Toyotas; they can produce more Lexus vehicles quicker than BMW. If BMW used more overseas suppliers as they are

trying to do this should help them to lower their costs. Using the money they saved they could undercut Lexus and get themselves into the company car market and earn substantial profits.

The Value Chain Analysis shows us that BMW manages their own distribution network. This requires them to own and maintain their fleet of lorries, it maybe cheaper for them to use a separate firm for delivering their vehicles.

From the PESTAL analysis it was evident that particularly for England where fuel prices are highest it maybe wise for BMW to concentrate on fuel-efficient cars, as that is what customers will be asking for. They could also solve this problem by designing LPG, more efficient Diesel or dual fuel cars (which use both fuels).

The Value Chain Analysis has also identified that BMW holds an inventory of suppliers in their repair garages. In order to save space and money it is recommended that BMW should use a JIT (Just in Time) procedure; this would deliver the supplies to repair a vehicle when they are needed. This maybe a little less efficient instead of having supplies to hand but it is cheaper.

Lexus in particular are very customer orientated. BMW should take into account that it pays to form a bond with your customers, as they will recommend you to friends and family and in the future they may buy from you again.

References

Websites

<https://assignbuster.com/strategic-analysis-automobile-industry-essay-sample/>

Anon (2003) ROAD CHARGING NEEDED TO CUT TRAFFIC [online] Available from: http://www.foe.co.uk/resource/press_releases/road_charging_needed_to_cut_traffic.html [Accessed 22. 10. 03]

Anon (1999) UK wages war on greenhouse gases [online] Available from: http://news.bbc.co.uk/1/hi/uk_politics/1027644.stm [Accessed 20. 10. 03]

Anon (2002) BMW 'boosts economic hope' [online] Available from: <http://news.bbc.co.uk/1/hi/england/1832244.stm> [Accessed 20. 10. 03]

Anon (2003) Strikes halt BMW plants [online] Available from: <http://news.bbc.co.uk/1/hi/business/3014514.stm> [Accessed 25. 10. 03]

Anon (2001) BMW mauled by shareholders [online] Available from: <http://news.bbc.co.uk/1/hi/business/3054854.stm> [Accessed 23. 10. 03]

Anon (2003) Design for the environment [online] Available from: <http://www.bmw.com> [Accessed 01. 11. 03]

Anon (2003) Vehicle Certification Agency [online] Available from: http://www.vcacarfueldata.org.uk/e_introduction.htm [Accessed 05. 11. 03]

Anon (2003) European legislation sets tougher emission standards [online] Available from: <http://www.aecc.be/en/aecc.htm> [Accessed 10. 11. 03]

Anon (2002) The Future of car retailing [online] Available from: www.mfbi.org [Accessed 16. 10. 03]

<https://assignbuster.com/strategic-analysis-automobile-industry-essay-sample/>

Anon (2001) Personnel Policy [online] Available from: [www. bmw. com](http://www.bmw.com)
[Accessed 20. 10. 03]

Broadbent T (1993) How 15 Years of Consistent Advertising Helped BMW
Treble Sales Without Losing Prestige [online] Available from: [www. wcrs. com](http://www.wcrs.com)
[Accessed 20. 10. 03]

Burgler J, Williams G (2002) The economic role measurements in the
automobile sector [online] Available from:[Accessed 29. 10. 03]

Milner, M (2000) MPs lash ‘ chaotic’ BMW over Rover crisis [online] Available
from: [www. guardian. co. uk](http://www.guardian.co.uk) [Accessed 19. 10. 03]

Textbooks/Case Study

Brassington, F. Pettit, S. (2000) Principles of Marketing. 2nd Edition. Essex:
Prentice Hall.

Johnson, G. Scholes, K. (2002) Exploring Corporate Strategy. 6th Edition.
Essex: Prentice Hall.

Lencioni V (2001) BMW Automobiles. 1st Edition. Middlesex.

Bibliography

Websites

Anon (2003) ROAD CHARGING NEEDED TO CUT TRAFFIC [online] Available
from: [http://www. foe. co.](http://www.foe.co)

[https://assignbuster.com/strategic-analysis-automobile-industry-essay-
sample/](https://assignbuster.com/strategic-analysis-automobile-industry-essay-sample/)

uk/resource/press_releases/road_charging_needed_to_cu.html [Accessed 22. 10. 03]

Anon (1999) UK wages war on greenhouse gases [online] Available from: http://news.bbc.co.uk/1/hi/uk_politics/1027644.stm [Accessed 20. 10. 03]

Anon (2002) BMW 'boosts economic hope' [online] Available from: <http://news.bbc.co.uk/1/hi/england/1832244.stm> [Accessed 20. 10. 03]

Anon (2003) Strikes halt BMW plants [online] Available from: <http://news.bbc.co.uk/1/hi/business/3014514.stm> [Accessed 25. 10. 03]

Anon (2003) PDI, consumer expenditure and savings [online] Available from: www.mintel.com/consumerexpenditure/748573 [Accessed 23. 10. 03]

Anon (2001) BMW mauled by shareholders [online] Available from: <http://news.bbc.co.uk/1/hi/business/3054854.stm> [Accessed 23. 10. 03]

Anon (2003) Design for the environment [online] Available from: <http://www.bmw.com> [Accessed 01. 11. 03]

Anon (2003) Vehicle Certification Agency [online] Available from: http://www.vcacarfueldata.org.uk/e_introduction.htm [Accessed 05. 11. 03]

Anon (2003) European legislation sets tougher emission standards [online] Available from: <http://www.aecc.be/en/aecc.htm> [Accessed 10. 11. 03]

Anon (2002) The Future of car retailing [online] Available from: www.mfbi.org [Accessed 16. 10. 03]

<https://assignbuster.com/strategic-analysis-automobile-industry-essay-sample/>

Anon (2001) Personnel Policy [online] Available from: [www. bmw. com](http://www.bmw.com)
[Accessed 20. 10. 03]

Anon (2001) European Car Web [online] Available from: [http://www. europeancarweb. com/tech/0212ec_bmwtech/](http://www.europeancarweb.com/tech/0212ec_bmwtech/) [Accessed 20. 10. 03]

Anon (2003) Department for Transport [online] Available from: [www. dtf. gov. uk](http://www.dtf.gov.uk) [Accessed 28. 10. 03]

Anon (2000) Oxford Plant [online] Available from: [www. bized. ac. uk](http://www.bized.ac.uk)
[Accessed 02. 11. 03]

Anon (2000) Banks ‘ blocking Rover rescue’ [online] Available from:
[http://news. bbc. co. uk/1/hi/business/734822. stm](http://news.bbc.co.uk/1/hi/business/734822.stm) [Accessed 22. 11. 03]

Broadbent T (1993) How 15 Years of Consistent Advertising Helped BMW
Treble Sales Without Losing Prestige [online] Available from: [www. wcrs. com](http://www.wcrs.com)
[Accessed 20. 10. 03]

Burgler J, Williams G (2002) The economic role measurements in the
automobile sector [online] Available from:[Accessed 29. 10. 03]

Hughes, S (2003) Diesel gives lots of dash! [online] Available from: [www. proquest. umi. com](http://www.proquest.umi.com) [Accessed 11. 11. 03]

McDowell J (2003) The Art of Global Marketing [online] Available from: [www. warc. co. uk](http://www.warc.co.uk) [Accessed 25. 10. 03]

Milner, M (2000) MPs lash 'chaotic' BMW over Rover crisis [online] Available from: www.guardian.co.uk [Accessed 19. 10. 03]

Textbooks/Case Study

Brassington, F. Pettit, S. (2000) Principles of Marketing. 2nd Edition. Essex: Prentice Hall.

Brooks, I (1999) Organisational Behaviour: Individuals, Groups and the Organisation. 1st Edition. Essex: Prentice Hall.

Johnson, G. Scholes, K. (2002) Exploring Corporate Strategy. 6th Edition. Essex: Prentice Hall.

Lencioni V (2001) BMW Automobiles. 1st Edition. Middlesex.