Stratsim in the automobile industry

ASSIGN BUSTER

INTRODUCTION

Stratsim is an automobile industry with seven firms. Initial all firms were having the same strategic capabilities which means the same resources and competences i. e. same: capital, technology capabilities and number of vehicles from there managers was expected to deploy those capabilities to position their firm brands well in the market.

Competing to enter market segments and develop new products is way of achieving competitive advantage at the Strasim industry.

The industry is highly competitive but attractive since demand for vehicles is increasing all over the world promising for return on investment and profit.

STRATEGIC ANALYSIS

Making good strategic decisions and proper implementation of those strategies is the key to success because strategy is way of achieving the firm’s mission and objectives it aims to achieve.

“ Strategy is the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations’. (Johnson et al, 2009: pp3).

Firm B’s basic strategy is growth through differentiation where by customers will be lead to pay premium price for the highest perceived value. We aim to change the rule of game from price based to quality based competition. This will help to yield more profit and competitive edge from rivals.

Vision and Mission

Mission is defined as ‘ overriding purpose in line with the values or expectations of stakeholders’

Vision

‘ Desired future state: the aspiration of the organisation’ (Johnson et all 2009 pp 9)

Our mission is to become the superior in the automobile industry by offering qualitable and innovative vehicles to satisfy our customers more effectively and efficiently

Objectives

The firm’s objective is to create value to the shareholders and maintain long-term profitability.

THE ENVIRONMENT

Firm does operate in the macro environment. Managers need to build an open organisation system in order to receive the inputs which come from its environment. The information from the environment will lead the manager to craft the strategy. To do so there is a need of conducting a solid analysis of the firm’s environment (external and internal). The diagram below shows the company’s macro-environment which need to be analysed. This report will analyse the automotive industry and firm B’s internal strengths and weaknesses.

A. Thomson, Jr. A. J Strickland 111.

According to Thompson and Strickland there are two most important situational considerations:

1-industry and competitive conditions

2-a company's own competitive capabilities, resources, internal strengths and weaknesses and market position (Thompson and Strickland, 2003 pp73)

INDUSTRY AND COMPETITIVE

THE EXTERNAL ENVIRONMENT

Analysing the external environment is very important for a strategic manager as it provide the real situation for success or failure of the firm's strategy. This environment is changing at unprecedented rate; organisations need to respond quickly to survive because those changes have impacts on the organisational performance it creates opportunities and threats. An automobile industry can not escape the effects as it is hardly impacted with environmental changes throughout its history.

The analytical tool to analyse the external environment is PESTEL, five forces modal of Michael Porter and SWOT analysis. These frameworks provide the list of possible influences to success or failure of an automobile industry and the stratsim industry as a base of the analysis.

PESTEL framework

It comprises the Political, Economic, Social, Technological, Environmental and Legal factors. (see appendix 1)

The Macro-environmental factors show the broad picture of firm's environment. Managers should consider both factors while making decisions to track the trends and the changes occurring because they impact the organisation strategic performance in one way or another differently depending on the type of the industry/sector and organisational capabilities.

Political:

Political factors those mentioned above can have an effect on the automotive industry issues such as environmental pollution is of great important in this industry. Also government stability is important because political instability affects the success of vehicle manufacturer investors in different countries it reduce its attractiveness and profitability potential.

Economic:

Industry productivity and profitability might be affected by changes in interest rates, , inflation, unemployment and GDP. E. g. automobile industry was badly affected by recession

Socio-cultural:

A change in consumer taste is an opportunity for fast movers to grab the market and the threat for followers to loss the market. Also Changes on the disposable income impacts the consumers buying behaviour especially when it comes to buying a vehicle they might consider it a luxury.

Technological:

Advances and rapid changes in technology have changed business processes in the automotive industry. Coping and adapting to those changes is the key to success in this industry . Adapting to E-commerce modes is critical for success.

Environmental:

Environmental issues such a using environmentally friendly production resources to reduce greenhouse gas is important to comply with international environmental policies e. g. the Kyoto protocol is emphasising vehicle manufacturers throughout the world to take measures to reduce the specific emission for vehicles.

The Five Forces of competition

Porter’s five forces framework helps identify the attractiveness of an industry or sector in terms of competitive forces. (Johnson et all 2009 pp 30) This model will be used to explore the environment in which automobile industry operates.(see appendix 2)

The threat of entry: medium

The industry is profitable this attracts new players to enter but they have to face barriers such as high capital requirements for: buildings, equipment and promotion. Economies of scale enjoyed by incumbent firms, their access to resources and experience pose the barrier and reduce threat to minimum because New players can use other forms such as forming strategic alliances with existing firms and penetrate the market.

Power of Suppliers: Low

The use Information technology systems such E-commerce weaken the bargaining power of suppliers of automobile components since manufacturers can source for their requirements such as materials and labors all over the world and bargain for price. The switch cost from one supplier to another is low. Manufacturers can integrate backward and enter the suppliers industry.

Power of Buyers: High

Emergence of new information technologies such as internet raise the bargaining power of buyers, as they can access information and compare price. The attributes of vehicles are less differentiated; they are virtually identical as seen in the Stratsim this makes easier for customers to shift from one firm to another especially for price sensitive customers. Manufacturers need to differentiate their products to build a customer loyalty so that reduce the buyers power to minimum.

Threat of Substitutes: Medium

Companies in one industry come under competitive pressure from the actions of companies in a closely adjoining industry whenever buyers view the products of the two industries as good substitutes. (Thompson et all 2006 pp 59)

There is a close substitute of vehicles as the means of transport. Railway, seaway and airway are substitutes for automobile in terms of quality, safety and performance. But some of them such as airway is not a good substitute in terms of price because it is most expensive compared to road way this reduce the pressure of substitute to minimum. Advancement in technology paves the way for substitutability in terms of communication purposes Internet because it reduces the need of face to face communication.

Competitive Rivalry: High

Firm B rivals are firms A, C, D, E, F, G and other recognized brands such as Toyota, Tata etc The rivalry is intense since number of players is large. The industry is mature where growth is low this increase the risks of price-based competition which transfer the industry profit to consumers. Firms are struggling for growth opportunities to acquire more market shares and gain dominance. This is obviously in a Stratsim as firms are competing to enter in the market segments.

The analysis reviled that collective strength of the competitive forces in the automobile industry is moderate making the industry to be attractive and profitable.

SWOT analysis

A SWOT analyses the key issues from the business environment and the strategic capability of an organization that are mostly likely to impact on strategy development. (Johnson et all 2009 pp 81)

Firm B’s SWOT analysis will look on the firm’s external opportunities &Threats and internal Strengths & weaknesses

Firm B’ SWOT ANALYSIS

WEAKNESSES

- Limited resources to pursue new opportunities such as introducing new vehicle class
- Loss of market share in a family vehicle class
- Low productivity
- Highly in debit $4, 836. 0

- Weak in truck class where there was the most market potential

STRENGTH

- Market leader in economy class
- Good reputation.
- quality products; Buzzy has a higher winning market because it was perceived as the most qualitable car in the market
- Good management team
- Innovation & creativity
- Strong distribution capability

OPPORTUNITIES

- New Markets segments
- Advancement in technology will enable the firm to produce environmental friendly vehicles
- Collaborative arrangements
- Diversification
- Global expansion to increase markets

THREATS

- Competition from existing and new entrants.
- Globalisation pressures
- Rapid change in technology
- Environmentalism
- Volatility in Price
- Economic recession
- Raise in oil and gas prises

This analysis helps the firm to identify the key internal and external factors that are important to the firm's performance.(see appendix 3)

INTERNAL ENVIRONMENT ANALYSIS

In order to analyse the internal environment of the organisation we need to examine the strength of the firm's resources and competences (Strategic capability) in order to know if the organisation have a competitive advantage over the rivals.

Strategic capability is the ability to perform at the level required to survive and prosper. (Johnson et all 2009 pp 62).

Firm B's Resources

Tangible resources are physical assets of the firm it includes the physical, financial, human and intellectual capital recourses . Intangible are non physical assets.

Firm B has the following resources: buildings, machines, vehicle (Boss, Boffo and Buzzy) employees, managers (four managers with innovative capability) capital and cash generated from sales.

The following resources are unique which means they give the firm a competitive advantage over the rivals and they cannot obtain them in the same way as firm B

- Reputation
- Strong customer base
- Recognized brand

Firm B’ capabilities

- Innovation – to cope with technological changes
- Creativity – to produce unique designs
- CRM techniques- good customer service in order to retain our shares.
- Flexibility- ability to cope with changes of customers
- Strong brand -Buzzy is a remarkable brand

Firm B has managed to achieve the higher position since it managed to build and sustain the competitive advantage over the rivals. The resources and capabilities are unique.

Applying VRIO framework to Firm B

According to Barney and Hesterly the VRIO framework is a good tool to examine the internal environment of a firm. They state that VRIO “ stands for four questions one must ask about a resource or capability to determine its competitive potential:

1. Value?
2. Rarity?
3. Inimitability?
4. Organisation? Barney and Hesterly (2006),

The above VRIO framework show that firm B is capable to sustain its competitive advantage over time.

Firm B through the differentiation strategy had managed to create value to its customers by offering quality products more conveniently and effectively. Its resources such as competent management team with an adaptive capability are unique where by rivals can’t posses (rare) and it is difficult to imitate. Creativity, innovation, good customer service and other capabilities face the risk of substitution and imitation due to advancement in technology.

DECISIONS

The automobile industry is in the maturity stage where growth opportunities go down. Knowing that the firm keep on making regularly minor upgrades on all attributes at different times in order differentiate our products and be more up to date. to increase and modify the existing features which become obsolete as time goes.

In order to maintain our leading edge in the economy class and increase the shares of other classes manager were forced to be more innovative and creative through good blend of marketing mix (products, pricing, promotion and place)by making adjustment in the production processes and marketing approach. We increased dealerships and increase the training budget in order to establish supporting services. We were cost sensitive so that to keep cots down to achieve this we concentrated on the attributes that was needed by customers such as safety and quality. This help to gain reputation and develop a loyal customer base.(see appendix 2)

CONCLUSION AND RECOMMENDATION

Being competent in today’s business environment requires managers to think strategically and act proactively in order to grow and survive. Carefully environmental scanning is critical to success because it provide a usefully information from the environment in which the firm is operating. Changes of the environment has great impact on the success of the firms strategies, therefore the ears and eyes of managers should be open in order to know what is happening in the environment.

Innovation and creativity is the only way organisation and industries can survive whereby an organisation can develop a learning culture. Teamwork is also very important in managing tasks as I experienced in the stratsim.