Internal and external analysis of the automotive industry

Automobile industry is a global industry with the market size of 5. 6 million units' annually . There are six competing manufacturers in this industry: Amazing cars (A), Best Motors work(B), Cool Cars(C), Driven Motors Co. (D), Efficient Motors(E)and Fast Cars(F).

These annual sales of 5. 6 million units are expected to grow slightly next year if the economy performs as this year. The market shares for all competing manufacturers are the same except for Fast Cars (F) which has a slightly higher market share. This industry is usually broken down into seven vehicle classes which are: Economy (E), Family (F), Luxury (L), Sport(S), AEV (A), Minivan (M), Utility (U) and Truck (T).

The vehicle manufactured by the industry share six common benchmarks which customers' uses in making purchase decisions, which are: Price, size, Performance, Interior, Styling, quality and Safety.

These cars are sold by various contracted auto dealerships. These auto dealerships are also required to provide after sales services. Besides optimum dispersion of dealership in the market sales are also driven by effective marketing campaign by industry such as advertising and below the market financing.

These firms ensure they maintain their market share and growth by investing in research centers, making small to major upgrade, retooling of factories and even building extra capacities to mention just a few. But that can only be achieved by shrewd cash management skills because most of those investment start generating cash flows two to four years after the money had been invested in the first place.

Fast Cars (F) has four product lines which are: Fanagan, First class, Fly and Futile.

STRATEGIC PURPOSE

Firm F mission is to continue being profitable through provision of high quality cars for people with slightly high disposable income.

The firm F objectives are: to continue being a market leader in luxury, sports, utility and Minivan market segments, continue being profitable for foreseeable future and invest in research and development of cars which shall ensure top quality product for foreseeable future.

Fast cars (F) strategy is for ensuring sustainable sales each model shall undergo minor upgrade after two years of being introduced into the market and major upgrade after five years of being produced. Fast Cars shall produce new products within served market segment after Eight years of first introducing the product into the market.

3. 0: EXTERNAL ANALYSIS

External analysis is very important in making informed strategic decision in any organization (Robbins, 2007). For any strategic decision to be successful it must at least be an informed decision. There are various External analysis techniques with each providing different yet useful set of information. They include PESTEL analysis for analyzing macro environment; SWOT analysis which allows analysis of the opportunities and threats; Michael Porters 5 forces and industry life cycle from industry analysis, the critical success factors and industry groups to identify the competitors.

3. 1: PESTEL

PESTEL analysis provides the most comprehensive analysis of the macro environment in which a Fast car operates (Johnson G, 2008). Understanding of the information provided by PESTEL is key in ensuring success of the firm product and even going concern of it. PESTEL analysis include: Political risk analysis, Economic risk analysis, Social analysis, Technological analysis, Environment analysis and Legal analysis.

3. 1. 1: POLITICAL RISK ANALYSIS

Political risk analysis includes analyzing the risk of political stability both in terms of occurrence of wars but also in term of stability of legislation. For example the country that changes the same law frequently will be perceived to have a significant high political risk.

Apart from political stability other factors which are part of political risk analysis includes: tax laws, employment and labour relations laws, environment laws and regulation, trade restriction and tariffs.

3. 1. 2: ECONOMICAL RISK ANALYSIS

Economic risk analysis involves analyzing the potential for economical growth, foreign exchange rate, population unemployment, inflation rate, interest rate and availability of credit. As a general rule the industry is expected to sale more cars during the good economical times and less cars during the recession and prolonged period of economical contractions.

3. 1. 3: SOCIAL ANALYSIS

Social analysis this includes environment, car culture, taste, fashion, health consciousness, age distribution and population growth rate. Today car customers especially in major cities in western Europe and America prefers cars that are environmental friendly and are even prepared to pay a premium for that.

3. 1. 4: TECHNOLOGICAL ANALYSIS

This involves research and development of new product or upgrading either minor or major ways to existing products. It also includes production technologies such as automation . While conducting technological analysis it is crucial to analyze technological change in the economy and how it will likely impact the industry.

3. 1. 5: ENVIRONMENTAL ANALYSIS

Environmental analysis has become very important now days because of car customers and government environmental consciousness . Most government have legislated maximum acceptable carbon dioxide emission for a cars to be sold in their market. Besides customers takes into account the car fuel consummation before making a purchase decision.

3. 1. 6: LEGAL ANALYSIS

Automobile industry like other industries is regulated by the government. This requires them to obey all of the law as enacted and enforced by the government of the land. A good hypothetical case is carbon dioxide emission target per car which illegalizes the sale of all cars in the market which does not meet this criterion.

3. 2: MICHAEL PORTERS 5 FORCES ANALYSIS

Michael Porters 5 forces analysis is a very important technique in understanding competitive forces within any industry (Johnson G, 2008). Car industry like all other industries needs to understand competitive forces within the industry. It is only this understanding which shall ensure the success and failures within the industry as a whole.

3. 2. 1: THE THREAT OF NEW ENTRANTS

The threat of new entrant in this market is low because of higher barrier of entrance and high barrier of exit. There is a high barrier of entry because setting up a car company is very capital intensive venture.

Apart from that there are idle capacities within the industry which makes it very difficult for anyone going out of the business to find anyone interested in buying used up plants and equipment.

These two factors are deterrent for most people to enter the car industry as the manufacturer because of difficultness of ensuring the creation of value to shareholders.

3. 2. 2: BARGAINING POWER OF SUPPLIERS

The bargaining power of the supplier is low because most of the suppler are very small companies comparing to car manufacturers. Besides in most country car suppliers are unorganized but even if they are. Manufacturers source material from various parts of the world. This paper argues that the bargaining power of supplier is almost insignificant in the car industry.

3. 2. 3: BARGAINING POWER OF BUYERS

In this industry the bargaining power of buyers is very high because buyers have no switching cost and the industry is very price competitive. Most of the buyers make price comparisons on the internet in the purchase decision on: type of a car, dealer from whom to buy, and financing for the purchase offered.

3. 2. 4: THREAT OF A SUBSTITUTE

There is insignificant risk of substitute in cars today as just when there were firstly mass produced in 1920(Cramers, 2005). Cars remain to be the most convenient means of transport within geographical confinement. People use cars to commute from their residence in the morning and return in the evening the only available substitute is riding a bicycle or walking and who do you think is prepared to do either of the two if the distance to be covered is at least fifteen kilometers.

3. 2. 5: COMPETITIVE RIVARLY

This is one of the most competitive industries in the world. Any production technique which is expected to delivers competitive cost advantage is just copied on its knowledge. There is no significant product differentiation within the industry. However, Fast cars industry has absolute market share in all segments which it operates.

3. 3: CRITICAL SUCCESS FACTORS

Critical success factors refer to the features which are used by the industry as the benchmark for evaluating a product. They include Price, Performance, Size, Styles, Safety, Interior and Quality. A company with higher weighted average on mastery on production of features of Styles, Safety, Interior and Quality (SSIQ) can produce a car of similar specification at a considerable low cost than the one with low weighted average of SSIQ.

3. 4: OPPORTUNITIES, THREATS, STRENGTH AND WEAKNESS (SWOT) ANAYSIS

Opportunities:

At the beginning there was an opportunity to decide the course of taking the firm in any direction the management felt would ensure success for the firm. At period 0 all firm had the same resources. It goes without saying that the positions the firm where at period 2 and subsequent periods were the result of managerial decision of those firms.

Threats:

The major threat at period 0 was that Firm F had a significantly lower weighted average of SSIQ. This had a potential negative pricing ability as on average the production cost per unit for any car which we intended to produce was significantly higher than all other competitors. It was for this reason we decided to make cars for targeted consumer with significant higher disposable income.

Strength:

The strength in firm F is quality of its product and Brand. Firm F has managed to ensure it is associated with successful and yet powerful individual. This explains its absolute dominance in Luxury and sports market segment. Besides it is known as producers of safer and reliable vehicle which again explain its domination on minivan and utility segments.

Weakness:

Due to lower weighted average of SSIQ the company is vulnerable if any of the competitors enters in the market segments which firm F operate . As the competitor can offer the cars of the same quality at a considerable lower price. This will result in decline of profit margin per unit for firm F and eventually will cause decline of overall profitability.

4. 0: INTERNAL ANALYSIS

4. 1: Resource and Capability:

These refer to materials (i. e. inputs) and abilities which are required for the firm to survive and prosper (Johnson G, 2008). There is four types of resources: physical, financial, intellectual and human.

Physical Resource: It includes: manufacturing plant, raw materials and finished products.

Financial Resource: This includes; company financial assets such as cash in bank, collectables and availability of credit lines from various financiers and sales of finished products which are the major source of cash inflows for any company.

Human Resource: This is the resource which organizes all other factors of resources in the course of operation cycle. Each firm in case of Stratsim environment employs 3 to 4 people.

Intellectual Resource: This refers to skills of the workforce, production technique and technologies. In car industry now day's intellectual resource is a single biggest provider of competitive advantage.

The capabilities of Auto industry are manufacturing of: Quality, Safe, Stylish, with good interior design, at right prices with good engine performance cars either within local market or even at international markets.

4. 2: VRIO

Value: This is defined as the ability of the firm resource to satisfy customer satisfaction . The vehicle purchased by the customer is expected to operate smoothly in order for customer to feel he is enjoying utility which is corresponding to money he has parted with to enjoy the utility in first place. The company which offers value for money can easily create loyal customer base.

Rare: This refers to a unique resource which the firm has created. The good example is the launch of AEV vehicle ahead of other competitors. The firm will enjoy the first mover advantage within that new car market segment.

Immitability: This refers to the ability of the firm developing resources which are not easily copied. Resources can protect against copying by patenting all of the technologies which are developed by the firm: However; in case of

Stratsim this was impossible as all of firm decision was available to you competitors for review and scrutiny.

Organization: This refers to the interaction of all resources in attainment of organization goals and targets. This industry as per stratsim case offered nothing to attract talent to come and work in this industry instead of the other industry. The problem of leaving everything to chance in real world the industry might find itself struggling with attraction and retention of talent.

4. 3: FINANCIAL ANALYSIS

The company financial performances for the first four years were very good with collective net income of 1, 940, 000, 000. However; The Company suffered a huge loss on the fifth year when the company suffered a massive loss of 1, 689, 000, 000.

The financial indicator for the all five years of the business operation can be is provided in the table below.

Table 1: Financial Indicators Information (Source: Stratsim Game, 2010)

Years

Net income(000, 000)

Stock Price

Market Value

Market Share

1

524

26. 6

13, 303. 00

14. 3

2

610

26. 6

13, 016. 00

14. 1

3

658

22. 58

11, 292. 00

12. 3

4

148

18. 94

9, 469. 00

11. 2

5

-1689

7. 57

3, 785. 00

11. 2

This loss which the company had suffered is threatening the very existence of firm F if there are no are no new capital injections. This may be surprising for a person an uneducated observer that why the company which has net collective income of 251, 000, 000 over five years should should the company be threatened the loss of its fifth year.

The reason is simple the net income in respective years was some portion of them reinvested in :(a) making minor upgrade on existing product;(b) making major upgrade;(c)investing in new models;(d) in retooling and expanding production capacities .

The company must understand the reason for the massive loss and must takes corrective measures to ensure its survival and prosperity.

Besides there have been a significant decline in company stock price, market value and market share. However; this is not surprising as most stock market is driven by past performance. This explains the decline in those factors starting in the fourth year all the way to fifth year when profitability of the company started declining.

5. 0: DECISIONS

Firm F made upgrade in (a)minor upgrade after every year (b) major upgrade after two years (c) introduced new product after five years of production. This strategy was adopted for the purposes of ensuring the cars maintain their " wow" factor.

This strategy was adopted because it has been tasted time and time again and it has proven to be extremely effective in maintaining market share. This strategy was for the first time employed by GM and it ensured it surpassed Ford sales in 1920' when ford was only producing module T only (Cramer, 2005) at ultra lower prices because of Ford massive economies of scale.

Firm F decided to concentrate on production of Luxury cars with its First class brand, Sports vehicle with Fly brand, Minivan vehicle with Finigan brands and Utility vehicle with its futile brand. All of this cars are expensive on a relative terms compared to other market segment.

The decision to produce these cars paid of during good economical times but did very poorly during bad economical times of fourth and fifth year. This resulted into massive losses in year five.

The failure of the management to diversify into other market segment which is serve customers who are price sensitive must have contributed into massive losses which the firm suffered.

6. 0: CONCLUSIONS

The firm put too much emphasis in leading in Luxury, Sport, Minivan and Utility market segments. The firm did very well during the economic boom but poorly during the bad economic period which started in the last month of third year and dragged throughout the fourth and fifth year.

This poor economical condition had two major effects: First, consumers had less money to spend . and Secondly, it changed the perception that excess was cool. These two factors combined caused a significant decline in sales as few customers were prepared to buy the type of cars we were selling. Unlike other manufacturers we could not cut prices too much because unlike them we have a significant higher production cost per unit because of low weighted average of SSIQ.

This strategy of selling expensive cars works very well during good economic period but badly during poor economic period. We advice the company should invest in training and new capabilities so as to attain industry standard of SSIQ average. This will ensure that a company has no competitive disadvantage in terms of production cost per unit. Attainment of industry standard average of SSIQ will ensure the company is an effective price competitor in the market and secondly success if it decides to manufacture into cars with low profit margin.