

# External environment analysis for toyota plc



Automotive industry is a large scale of business that the market has altered quickly because of technology, economics, etc. This report is concern about Toyota (GB) Plc that is a large multi-national corporation, which main strategic issues are to be a leader of automotive global market and automotive innovation with respecting environment. Firstly, this section will analyze external environment by the PESTE framework. Secondly, it concern about automotive industry which examined by the five forces framework. Thirdly, it reveals estimation of profitability and efficiency for firms. Finally, it will conclude the assessment of company and recommend the strategy plans for future practice.

## **Company and Industry context**

For Toyota (GB) Plc, the main activities of the company are distribution, selling and servicing vehicles of Toyota and Lexus brands. Most companies in this geographical market are authorized dealers such as Volkswagen, Ford and BMW and some companies are retail that they sell many brands of vehicle such as Lookers Plc and Arnold Clark Automobile Co., Ltd. Furthermore, the activities provide after sell service, maintenance and selling parts to customers.

## **The macro-environment**

There are many causes that affect the macro environment concern with automotive industry. Analyzing the external environment, the PESTE framework is used as tools to consider major factors, which affect the business and to create key driver of change (Johnson, Scholes and Whittington, 2008). This can identify influential effects in each area, which can consider key success factors of company.

## **1. 1 Political**

This factor is most related government policy such as taxation policy and trade tariff. Because manufactures import some vehicles and parts from other countries, firms need to pay for the tariff for buying. Costs of products will be increase, if government increase import tariff. This is the challenge that company faces fluctuation of cost.

## **1. 2 Economics**

Economic growth affects spending of people by changing buying power, for example, the economic crisis impact decrease of salary, increase of unemployment that people are difficult to buy products because they have less income.

## **1. 3 Social**

For social factor, some people select to buy products since they can reveal the social status of consumers and some people are still reputation in brands. Moreover, the trend of family structure has changed and customer needs will be different. For example, people who are in nuclear family need to buy the products that can suitable for their family function. Toyota has not only positioned itself in middle market by using the Toyota brand but also launched Lexus for luxury brand which firm has wide range of product.

## **1. 4 Technology**

Technology is one of the important factors of environmental impact on organizations, technologies change quickly while companies have invested in research and development to respond needs. Innovative technology can

provide more opportunities in particular energy conservation issues such as fuel consumption and alternative energy technology.

## **1.5 Environment**

The essential of environmental issues is global warming. Many companies try to produce “eco-friendly product” for following the issues. People concern more about reducing the environmental impacts that companies need to adapt their product to support consumers such as low emission vehicles.

### **Industry sector**

By using Porter’s five forces framework, it can analyze the changing of factors and assess profitability of company in industry (Porter, 1998).

Focusing on industry sector, it will concern about potential of firms operating similar activities or providing similar products and influence of both suppliers and buyers to quantify the potential of company.

Suppliers

Threat of new entry

Substitutes

### **Competitors rrar**

Buyers

## **Figure 1: Porter’s five forces diagram**

### **2.1 Buyer power**

In automotive industry, it is low switching cost which customers can select variety of products in the same range of price. Each brand provide good

offering for propensity customers. Furthermore, buyers have many ways to compare products information. Thus, buyers have high bargaining power.

## **2. 2 Supplier power**

This subject is not much influence for the firms because Toyota (GB) plc is subsidiary of Toyota Motor Corporation Japan. Toyota Motor Manufacturing (UK) Ltd is main supplier to produce vehicles for supporting this company. It can be consider a strong supplier.

## **2. 3 Competitive rivalry**

The automobile has more diversity of competitors which have strong brands of cars in the same class. Ford and Vauxhall dominate UK car market that each of them gains approximately 13% of market share while Toyota has 4.4% in 2010 (AM, 2010). Moreover, the other brands such as Mercedes-Benz, BMW, Audi and Volkswagen are also significant competitors because they offer the same range of price and service maintenance cost. Therefore, companies which

## **2. 4 Threat of substitutes**

The most influence substitute in this industry is Public transportations such as rail, underground subway and bus. These transportations can facilitate people who need to travel that they are not only convenience but also economical price. Thus, it can decrease demand for buying car.

## **2. 5 Threat of new entry**

It is difficult for new entry to enter into business in this sector since the investment costs are high. For automotive industry, research and development technologies are crucial for gaining advantages that new

entrants cannot develop easily. Moreover, firms which are already in market have large effectively distribution channels. Hence, the threat for new entry is high.

## **Company performance**

### **Figure 2: Toyota (GB) Plc (Return on capital employed: ROCE)**

From figure 2, it show that ROCE ratio had a sharp decrease from 2008 to 2009 because of economic crisis, however, in 2010, it continue increase slightly. It seem to be that company can get more return

## **Conclusion**

For the external environment, this report shows that company should plan to cope with economic change which can affect buying power. However, using technology in the market, Toyota has own advance technology such as technology of hybrid car that can gain more opportunities because people are more conscious about environmental issues. Concern with industry sector the bargaining power of buyer is high and there are more competitors producing similar products that people have more choice to select products. Firm should provide variety of products especially.....