

Analysis of factors influencing activities of bmw marketing essay



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This text is an analysis of factors influencing the activities of BMW in its efforts to enhance the participation in national and international markets. At the very beginning of the text, the link between profitability and competition is briefly outlined. The next phase provides a brief insight into the background of the firm, followed by a brief insight into the Mintzberg's and Whittington's views on emergent school of strategy formation. The history of the BMW is scrutinised to identify an event which has presented the firm with the strategic paradoxes discussed by Mintzberg.

The next chapter of the report consists of an analysis of the external environment with the aid of a PESTLE and Porter's Diamond Framework and a look into the impact of home market condition on BMW's international activities. The final chapters of the report outlines the key strategic decisions that BMW will have to take in the near future and the implementation issues related to the decisions concern.

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1. 0 Introduction

An organisation can increase upon its profitability either by locating an attractive industry or by establishing a distinct competitive advantage over its rivals. Over the years with increasing competition across all the industries, very few industries environments guarantee definitive secure returns. Establishing a competitive advantage, thus, has become the primary goal of devising any strategy within an organisation. A successful organisation makes its balance sheet stronger by establishing and sustaining competitive advantage. The secret of sustaining competitive advantage in a

firm lies in its expertise at keeping their competitors away from imitating successful strategies. The greater the difficulty that rivals face in analysing the resources and capabilities required in order to imitate the source of competitive advantage, the greater is the sustainability of the firm's competitive advantage. Resources and capabilities, thus, are fundamental to a company's strategy and decision-making. However, in an international context, a firm's potential for competitive advantage not only lies in its resources and capabilities but also by the government under which it operates, the legal policies in those countries, exchange rates and a number of other factors. Thus, in order to decide whether an organisation should participate more at national and international level necessitates a thorough analysis of two factors - (i) the industrial attractiveness of the overseas market and (ii) the firm's capability of effectively transferring its resource and capabilities to the new location.

While I put forward my arguments and analysis, I would like to follow a structured approach. I would first provide a brief organisational background followed by the scope of this report. Next, I would touch upon the organisational history and highlight couple of critical incidents to illustrate some of the strategy paradoxes by some of the leading commentators from the emergent school of thought. I would then perform an external environment analysis in order to identify the threats and opportunities in the industry followed by an internal analysis to ascertain the strengths and weaknesses of the organisation. This would lead to the key success factors and finally I would come up with the key strategic decisions that the

company need to take and the implementation challenges associated with it before concluding this report.

The chosen organisation is BMW and I shall now provide some background information to put the analysis into context.

2. 0 Organisational background

Figure 2: BMW Group Deliveries of automobiles by region and market

Figure 1: BMW Group Revenues by region BMW is one of the leading manufacturers in premium cars and motorcycles in Europe headquartered in Munich. The company primarily operates in Europe and the Americas with revenue of €53197 million (\$78, 270. 9 million) during the financial year FY2008. Besides automobile manufacturing, the company also provides information technology and financial services. The company has its manufacturing plants spread over 13 countries in four continents and showrooms across 150 countries worldwide. At a business level, BMW operates through three main business divisions – automobiles, motorcycles and financial services.

Strong geographic presence in the developed countries has helped BMW spread its operations across US and Europe thus spreading its risk to some extent. However, the recent recession and the present threats of a double dip recession have adversely affected the BMW revenues, cash flows and financial conditions.

3. 0 Scope

Before discussing the strategic paradoxes it is essential that I mention the scope of this report. This report looks at the internal and external environment of BMW in order to assess the strategic aspirations to participate more in the national and international market from the perspective of the home country i. e. Germany. So, in this report, we are trying to analyse what are the possible threats and opportunities for BMW to make its presence increasing starting from the home country. I have put in my best efforts to collect the data pertaining to the last couple of years in order to support my analysis. However, in some cases I had to work with the latest available data in order to augment my arguments. Every attempt has been made to discuss both the national and international aspects at different points in the report.

4. 0 Strategy paradoxes in BMW's history

The strategy formation in business organisations is a hotly debated topic within business literature. Conventional thought on this matter highly favours deliberate approach of strategy formation in which strategies are derived through rational analysis of available information. However, Henry Mintzberg takes a fundamentally different view of strategy formulation and suggests that it is an emergent process where in strategies are formed in response to events or changes in the business environment. In order to explain the emergent strategy formation process which Mintzberg strongly advocates, he compares the process to a craftsman producing a piece of art where “ one idea leads to another until a new pattern forms. Action has driven thinking as strategy has emerged” (Mintzberg, 1987) The essence of

Mintzberg's argument is that successful strategies cannot be formulated in isolation by the top management alone. It should incorporate the insights from players at an operational level who would possess more intimate knowledge on customer needs. Mintzberg states that the strategy formulation process has lost its connection with the customer needs and is too focussed on competition with the rivals. Thus Mintzberg's arguments suggest to refocus on the importance of understanding the customer needs better than the competitors.

Mintzberg distinguishes strategy as 'intended', 'realised' and 'emergent' strategies. Intended strategy is developed by the top management. The realised strategy refers to what is implemented at bottom levels of the hierarchy. According to Mintzberg, realised strategy would represent only a part of the intended strategy since it is subject to interpretation and adaptation to external needs by the managers at lower level. The complex process of interpreting and adapting strategy to suit to external environmental needs is referred to as 'Emergent Strategy'. Mintzberg elaborates the emergent process of strategy formation with the example of the Canadian national Film boards entry into production of films for television. In early 1950's the Canadian national film board had taken a strategic decision on not to produce films for television. However, a one producer's decision to produce a film for the television medium led to the discovery of this segment and NFB made a strategic commitment for this segment for the next few years. Mintzberg highlights the influence of accidental discoveries and experiments on the final emergent strategies.

In 1998 BMW successfully acquired the luxury car maker Rolls Royce. The Rolls Royce was obvious candidate for collaboration with BMW due to its compatible image. However, BMW has been on collaboration with Rolls Royce for sometime before and was supplying engine for the British car maker. Whether the decision to acquire Rolls Royce was a deliberate decision emerged through the discovery of compatibilities during the previous collaboration is open to debate.

Whittington contributes to the debate of deliberate and emergent nature of strategy formation by recognising “ strategy as a contested and imperfectable procedure”. He identifies four distinct perspectives of strategy –

- (i) Classicists who promotes the rational strategic planning school of thought.
- (ii) Evolutionists who views strategy as efficient utilisation of resources and the process of formulation to be emergent
- (iii) Processual sees the strategy as a combination of accidents and negotiated goals
- (iv) Systemic View – views strategy as a balance between deliberate decisions and emergent outcomes.

Whittington, a strong supporter of systemic view argues that strategy formulation is highly influenced by managerial self interest and not by objective rational plan.

5.0 External environment

The rationale of carrying an external analysis is to understand the overriding implications of the changes and trends in the macro environment. The analysis of the external environment is carried out with the aid of a PESTLE analysis. PORTER'S DIAMOND framework is another effective tool that has been used to analyse the sources of comparative advantage for BMW to thrive in the international market.

Germany the host country of BMW is undergoing a political revival. Germany has enjoyed high levels of growth among developed countries and its economy is forecasted to grow by 3% this year. (Atkins & Oakley, 2010. Online] On the other hand, Germany is geared to claim its due place in the international community. The favourable outlook of the country will have a positive impact on international activities of BMW.

The economic downturn had devastating effects on the car industry. This was propelled mainly due to two reasons – the credit crunch squeezed the availability of funds for consumer lending and a considerable erosion of consumer confidence had an adverse effect on new car purchases. The hardest hit was the luxury segment in which BMW is a dominant player.

Figure 3: Oil price trend

The fluctuating nature of oil prices will enhance the element of uncertainty within the automobile industry. As depicted in the graph in figure 3, the current trend demonstrates an upward movement. This might lead to an increased demand for more fuel efficient cars. Also, like any other natural

resource, there is a risk of exhaustion. Hence, sooner or later there would be demand for non-conventional alternative sources of energy.

Figure 4: Exchange rates compared to the EuroThe appreciation of euro against the United States dollar and the sterling pound as depicted in figure 4 would make the German exports more expensive abroad. The implication of these currency fluctuations would be more acute in relatively price sensitive segments of emerging middle class in the BRIC countries.

The emergence of new cash rich middle class especially in the BRIC countries (Brazil, Russia, India and China) will expand the segment yearning for pride and prestige. Thus, the traditional association of BMW brand with status would create new opportunities. Research shows that by 2020 40% of car buyers in developed countries will be over 60. These are those who have more personal disposable income. These buyers would probably not require any loans to buy their cars. They would probably be looking for small cars.

The technological developments are primarily influenced by demands for a greener car and the changes in the demographic makeup of the target market. The quest for eco-friendly cars and aging population would increase the demand for small cars. Thus, developing hybrid technologies for environment friendly cars and technologies necessary for a 'small car' compatible with BMW's image are key challenges.

Many cities are introducing local emissions regulations to tackle local air quality issues. These are known as Low Emission Zones (LEZs) or Environmental Zones (E-Zones). In May 2009, President Obama announced a new national fuel economy and emissions policy that incorporated <https://assignbuster.com/analysis-of-factors-influencing-activities-of-bmw-marketing-essay/>

California's contested plan to curb greenhouse gas emissions on its own. This is over and above the existing federal government regulations. Legal obligations, thus, would have a significant impact on consumer preferences.

The higher levels of awareness about environmental impact of automobiles and the increasing trend towards greener cars especially among younger generations would demand serious adaptations from the players in the industry.

The PESTLE analysis highlights the challenges that BMW would face in enhancing its role in national and international automobile markets. It also identifies the opportunities that BMW could exploit to enhance its participation in national and international markets.

However the sources of competitive advantage in an international context differ from the sources of national competitive advantage. Thus, a closer observation at BMW's basis of international competitive advantage could be derived to Porter's Diamond framework.

The implications of the macro environmental analysis on the strategic direction of BMW can be summed up as below:

A profitable small car is a crucial need in the BMW's model mix. BMW has thus far failed to come up with a profitable small car.

Aging populations in the developed world would decrease the need for consumer finance. Thus, in the future the demand would be more resilient to the ups and downs in the macro-economic environment.

The demand for traditional models of BMW will come from BRIC countries where emerging middle class will find appeal in BMW's traditional offering due to its brand image.

Lithium would emerge as the next petroleum since it is the most vital ingredient for the batteries of hybrid model cars. Securing a constant supply of lithium for the batteries would be a fundamental pre-requisite in developing clean energy efficient cars.

Hence, it is imperative that BMW should consider the above mentioned factors in defining its strategic aspirations.

The participation in national and international spheres would depend on the comparative advantage BMW commands over its rivals across the globe.

Porter identifies four sources of international comparative advantage.

Porter's National Diamond Framework provides a basis to analyse comparative advantage by examining the dynamics that leads to comparative advantage.

Factor Conditions: Germany is a rich source of skilled labour in technology and has a long tradition of engineering excellence. Skilled labour is a vital home grown factor condition identified by Porter as a source of comparative advantage (Grant, 2010. p. 376) Thus BMW has a comparative advantage in terms of access to skilled labour for competing in international markets

Related and Supporting Industries: The availability of key resources and capabilities in form of clusters provides a source of comparative advantage over rivals from countries lacking such a support network. A number of major

players in automobile industry are based in Germany like BMW, VW and Mercedes. As a result a solid cluster of related and supporting industries exist.

Demand conditions: The nature of demand in the home nation is a key determinant of the comparative advantage of the players from that country. In explaining the relevance of demand conditions Michael Porter specifically refers to the German dominance in high performance automobile segments – “ Daimler, BMW, Porsche, and VW-Audi reflects German motorists’ love of quality, engineering and their irrepressible urge to drive on autopahns at terrifying speed” (Grant, 2010. p. 377)

Strategy Structure and Rivalry: The level of competition in national markets drives innovation and provides a platform for international comparative advantage. However, Porter argues that the failure of European firms in high-tech industries is primarily due to the tendency of respective governments to create national champions which in turn has eroded the level of domestic competition. Automobile industry is an exception to this trend and a fierce competition between major players in the industry for the European market in general and for the German market in particular provides an incentive for innovation. Thus BMW is in a position to develop and transfer relevant capabilities to the international markets.

Hence, BMW is in a favourable position to exploit its position to make its presence felt in a bigger way both in the national and international automobile markets.

6.0 Internal strengths and weaknesses

Resource Based View suggests that the competitive advantage of a firm mainly relies on the resources and capabilities the organisation possesses. This is a marked shift from the traditional view of competitive advantage gained through responding to the changes in the external environment. Though the schools of thought differ on formation of competitive advantage, it is beneficial to analyse the resources and capabilities which BMW possesses in order to assess the sources to gain a competitive position in the market.

A quick Resource audit and capabilities analysis would suggest that following are the key resources and capabilities those BMW possesses which it can use to its advantage:

Brand Value and Perception: BMW has an incredible brand value as a premium luxury brand. Customers who buy BMW products don't just buy the product. They perceive it as an experience of life time. Thus BMW can continue using its leading brand image to boost its sales and revenues.

Superior engine technology and innovation: BMW boasts of its engine technology and innovation. It comes up with new models like Gina and Hydrogen 7 which has revolutionised the concept of premium luxury cars. Technological innovation and efficient and responsible use of resources are some of the unique resources which separate BMW from its competitors.

Global presence: BMW Group operates 24 production facilities in 13 countries and has a global sales network in more than 140 countries. So, it has got a decent global presence and a great supply chain network. BMW can use this existing Global presence in order to expand organically and participate more

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into national and global markets. BMW's presence is mostly in Europe and the Americas where the market has almost reached saturation. Maybe it should start looking into the less saturated markets like the far-east.

Developing countries like Brazil, China, Russia and India are in huge demand of cars today.

BMW Culture: Company's revenue per employee at \$782, 388. 2 is higher than that of its competitors which indicates the company's stronger productivity and operational efficiency. High employee productivity is a reflection of a good culture prevailing in the organisation which boosts employee morale.

Financial stability: Although the net profit has fallen during the last financial year (Appendix A), BMW still has a steady source of revenue and with the demand for cars growing in the BRIC countries there are lots of opportunities for BMW in the near future.

7. 0 Key strategic decisions or recommendations

The key strategic decisions that BMW needs to take spans from a wide array of areas. It includes decisions on research and development, securing vital source of material and strategies for exploiting the emerging opportunities in the developing world to its full potential

BMW would need to consider the research and development requirements in two vital aspects – (a) development of a profitable small car and (b) research on energy efficient eco friendly technologies. BMW will have to take key strategic decisions in these areas to be in line with the developments in the

external environment. However, the internal financial strengths and the <https://assignbuster.com/analysis-of-factors-influencing-activities-of-bmw-marketing-essay/>

capabilities in developing superior performing engines would provide a foundation in implementing and yielding results from research.

BMW will have to consider the possibility of collaborations in developing a platform for profitable small cars. Small cars will play a vital role within the model mix of BMW in the future. However, BMW's failure to come up with a profitable small car compatible to its image redraws the attention of strategists to the issue of developing small cars i. e. understanding the customer needs as pointed out by Henry Mintzberg.

As analysed above, customers from the western world are looking for energy efficient eco-friendly cars whereas those in the developing countries aspire for the brand and prestige associated with the BMW brand. Hence, what BMW ideally needs to do is to adopt a two prong strategy while trying to make its presence felt at two different parts of the world.

8.0 Implementation challenges

While investment on Research and Development would help BMW in developing a sustainable competitive advantage, in the short term it will affect the income statement. Given that the revenue for BMW has started falling from 2008 and the net profit at BMW has decreased by 36.4% [Appendix A] in the last one year, BMW needs to be quite critical and think it through before investing on Research and Development.

Compatibility (technology, image) While considering possible firms to collaborate with in order to manufacture a profitable small car, BMW should consider the compatibility issues that might arise due to capacity constraints

at different organisations. For example the potential company should have similar capacity on the lines of technology, brand image etc.

It's imperative that BMW needs to adopt a two prong approach while deciding the strategy for selling its cars in the developed world and the developing world. However, BMW needs to ensure that the strategy properly reflects in the way BMW markets its products. In other words, it is absolutely essential that BMW sends across consistent messages to its customers. Otherwise there is every possibility that BMW creates an ambiguity among its customers about its brand. Brand image being one of the key capabilities it is essential that BMW maintains the same perception among its customers.

9.0 Conclusion

The first part of this text provided a summary of the debate between the deliberate view and the emergent view of the strategy formulation.

Mintezberg makes a compelling case for the emergent schools view in strategy formulation through his research spanning several decades.

Minterberg also argues that over emphasis on beating of competition has lead to gradual erosion of importance attributed to the understanding of customer needs. The importance of understanding the needs of the firm's target segment is vital in achieve success in both national and international markets.

The external environmental analysis provided a framework for the understanding of the sources of competitive pressure and the implications of such pressures. The analysis conclusively proves that the change would be primarily driven by the developments in social and technological spheres

whilst economic cycle would continue have the obvious overriding implication.

On the other hand the Porter's Diamond framework provides a basis for the analysis of the impact of the home market of the firm on its international activities. In the case of BMW the analysis revealed that the company's home market conditions are favourably influencing its endeavour to enhance the international participation.

As elaborated BMW is face with several fundamental strategic decisions and recommendations to implement. However implementation of these recommendations will lead to a different set of challenges. Thus the firm has to be sensitivity to the implementation issues and ensure the avoidance of any mistakes.

In conclusion it can be stated that BMW is in a favourable position to enhance its participation, however the overall success will depend on the firm's ability to successfully navigate through the implementation issues.