

Pestel analysis
political factor
management essay



**ASSIGN
BUSTER**

China automobile industry, the top vehicle superpower in the world has become the backbone in the national economy due to the fast growing of the industry in 2009.

Protections and privileges have been set up by Chinese government to the foreign automakers which directly allow those foreign companies have easy access in Chinese automobile industry. Therefore, China is successfully attracted many multinational companies to enter the country such as Ford, and Volkswagen.

Economy Factor

The open policy have brings the country rapid and continuous economic growth and today, China has playing an important role in the global economic environment.

Based on China currently growing economy position, huge market size, and the dominating position in the global economic environment which showed there are high profits potential have attracted big international vehicle manufacturers.

Social Factor

Firstly, any international firm needs to understand the Chinese concept of 'guanxi' which is completely different meaning from Western concept of 'relationship'. However, it is important for Western organisations to build their own 'guanxi' networks in China in order to smoothen their operations.

Finding local partners when begin a business in China is a sensible way.

Thus, many of the multinational automobile manufacturers are choose joint

venture as their entry mode where it can ease the process in both administrative and political processes, yet, cultural differences may become the obstacles for them to handle.

Technology Factor

The technologies in automobile industry are keeps upgrading, for example, automobile makers are now designing a car with environmental consciousness in order to protect the environment and they comes up with hybrid cars.

Moreover, several automobile companies are using computers system in their car diagnosing problems.

Environment Factor

The consequences of the growth sales in automobiles are such as air pollution, sound pollution, and of course the global warming due to the overconsumption of oil which is causing the release of CO₃ that harm the earth. Nevertheless, the responsibility is not only in the shoulder of China but also the burden of the whole world.

Legal Factor

China laws and regulations are usually often known as unclear, ambiguous and difficult to understand. However, the government is trying to liberalize the legal and regulatory environment for foreign investors.

Michael Porter's 5 Forces

Threats of Product Substitutions

The factor presenting the strongest threat of substitutes in the industry is the second hand car. This may be seen in the face of used automobiles which are sold by dealerships along with new cars. Especially, when it is in the economic recession which directly impact the increase of buying second hand cars and reduce sales in new cars.

Public transportation like bus, train, monorail and others are another alternative mode of transport as the substitutes to cars.

Threats of New Entrants

Due to the economic booming and the rise of demand in purchasing cars in China, thus, it will attract more new entrants in the Chinese automobile industry.

A large investment is needed by every new entrant in order to set up necessary facilities in producing large amount of production. The fixed costs are high, and then it will be a major entry barrier for new entrants.

Besides, new entrants need to face some authorization processes before launch their new business. However, the lack of transparency in China legal system may bring substantial difficulties for them and it will create barriers too.

Intensity of Rivalry

As we know that, to involve in automobile industry the fixed costs are high. So, assuming a company wants to leave the industry, their loss of revenues

and assets will be high too. Hence, to avoid disinvestment, companies will increase their research and development and invest in marketing in order to attract customers which will increase the intensity of rivalry amongst companies.

Besides, international automobile companies not only need to competing each other, but also amongst the local automobile companies. Although it is true that customers might buy foreign cars by the mindset of quality, but, local customers will more prefer local automobiles where their design may fit their needs compare to foreign cars.

Bargaining Power of Buyers

‘Dealerships’ is the key buyers for those car manufacturers, yet, the end-user customers also importance to be counted.

The exclusive contractual agreements make the switching costs for the dealerships are extremely high. But, dealerships are vital to those car manufacturers too in the sense of reaching the end consumers.

Bargaining Power of Suppliers

The bargaining power of suppliers is seem to be high. This is because by the small size of reliable suppliers whose are producing high quality raw materials and readymade components and parts which are no substitutes for all needed raw materials.

Michael Porter's Diamond Analysis

Factor Conditions

China is a large population country with its increasing purchasing power has made it as the ideal place for investments.

In order to attract international automobile companies, the State council of China has developed a new development outline, called the Outline in March 2009 where it is about industrial upgrading, technological enhancement and promotion of new engines.

It is no doubt that China has enough facilities including land capacity and natural resources that able to support every interested company.

Demand Conditions

Today, there are change in the level of Chinese needs and want which is come along with the increase of purchasing power and disposable income amongst the demographics. Moreover, the improvement in the Chinese lifestyle and economic life of state power risen the private consumption of them.

The demand in China was especially heavy for cars that were perceived to be of higher quality than most of those produced by Chinese government and in China only about 20% of people owned car.

Related and Supporting Industries

China has realized that the reliance on low-end and labor-intensive manufacturing which use mainly imported technology is being no longer

sustainable. Therefore, the development of the automobile industry shall involve restructuring of the production and technological advancement.

The presented Outline by the Chinese government entails that passenger cars produced with domestically independent brands shall account for over 40% of the total car market, comprising about 10% (around one million) of the whole export production and sales in 2011.

A powerful information system aimed at enhancing the Joint Venture's capabilities by better managing the entire value chain of the enterprise, including research, design, sourcing, production, marketing, sales, and service.

Firm Strategy, Structure, and Rivalry

In terms of market expansion it is a moderate factor influencing rivalry among competitors due to the established powerful brands in the industry, nevertheless some companies engage in more than one segment by utilizing different brands, e. g. BMW and Mini.

Rivalry among competitors is also little reduced through a degree of differentiation in few diverse segments within the automobile industry like luxury cars and budget cars.

The models offered by Changan-Ford in the Chinese market sold well because they appealed to a sophisticated segment of buyers, who saw Western-designed cars as differentiated because of their overall superior quality, innovative technology and aesthetic appeal.

Hofstede's Dimension

Social Orientation

China scored 20 in the index which is showed that Chinese is a highly collectivist group where they act based on the group majority decision and not themselves.

In contrast, United States is a highly individualistic community where this can be proved by they achieved a 91 score.

In order to solve the problem between collectivist and individualistic culture, Changan-Ford can held workshops or seminars which are able to educate their employees about the important of teamwork (ie. Team building).

Power Orientation

By the high score of 80, China is a definitely power respect culture where they will obey to their superiors' command and instructions.

However, United States scoring a low score in this dimension which is only 40. And this is showed that Americans are practicing power tolerance where they will just follow their leader if they think that their leader is right, whereas the superior will listen to the employee's opinion. Therefore, empowerment atmosphere is in the Americans culture.

Changan-Ford may benchmark the Toyota lean productions strategy whereby Toyota is believed in bottom-up report and this beside can formalized the process but also can decentralized the organisation.

Uncertainty Orientation

In this dimension, China has score 30 which is showed that Chinese do not avoid risk and contented with ambiguity.

Slightly scores higher score than China, US scores 46 which presented that Americans are risk takers and willing to accept new ideas, innovative products and willing to try new practices.

Goal Orientation

By the scores of 66, China is proven to be masculine society. Thus, many Chinese will rather sacrifice their family than careers due to they are more eager to be successful in their jobs.

Not far different from China, US score 62 on this dimension showed that Americans are masculine society too.

Time Orientation

Chinese is known as the country that needed longest time to make decision making where persistence and perseverance are normal. This can be proved by they achieved extremely high score in this dimension which is 118 score.

Contrast, US scores 29 in this dimension and showed that they are short-term oriented culture. Therefore, Americans make fast decision making than Chinese.

The suggestion for Changan-Ford to solve this problem is they may set dateline to all decision-makings that all managers need to make.