Political factors can have a direct impact

To comply with the world’s concern of global warming and regulation, Nissan has launched their new product, Nissan Leaf which is the world first 100 percent and zero emission car designed for mass market. It is a fully electric-based car and is expected to be available globally by 2012.

Economic

The demand for products and services of the automobile industry is strongly affected by the economic conditions in each country or market where they are on sale. The industry has to predict change in economic climate and demands precisely and to take necessary measures to cope with the economic conditions. Price hike on various resources and energy could also affect the company. Any unexpected fluctuation of price regarding such resources can greatly affect the company financials and performance due to deterioration in operating performance.

The recent global economic crisis has affected all industries including the automobile industry. Such crisis will have a significant effect on Nissan’s financial position and business performance. For example, Nissan has been affected by the crisis by falling sales globally. It has made 1200 of its staffs at Sunderland UK plant redundant since the crisis began. The total job cuts are said to be around 20, 000 in total across all the plants worldwide*.

Socialcultural

The lifestyle of people and demographic factor varies according to different marketplace/region. Some countries such as India main transportation are bicycles and motorbikes, though cars are still widely used. This is because of the road and travel destination, where best transportation modes are used.

Developed countries such as the UK have train services across the country with almost any destination, such convenience will reduce the usage of personal cars. In the other hand, countries that have no such facilities solely rely on personal cars as transportation, will have a high usage of automobiles.

With higher literacy rate and better economy, the younger generation (Generation X) tends to personally own a car, as a requirement or as a social status. Contrary to the older generation where a family owns a single car, now a family might own several cars depending on the numbers of family numbers. As such, there is a higher demand for automobiles now than previously. Other than that, the younger generation have vast preferences of their cars to match their own need, where the automobile industry is working hard to meet their needs.

Technological

Technologies are crucial to the automobile industry, mass amount of capital is invested in R&D to improve their products. With the depletion of fossil fuel in the future, new technology as a substitute to energy resource for automobile is needed. Such technologies needed are hybrid engines and electric cars.

Besides, the internet technology has affected almost every industry in the world including the automobile industry. A report by C. Thomas stated that, a study showed that 60% of automobile buyers referred to the internet before making their purchases and out of that 60%, 88% went to the auto websites before taking a test drive. Besides that, the industry gain even more opportunities through internet due to more efficiency and lower cost in logistic.

SWOT

Strengths:

Geographic Diversification

Nissan has a wide geographical presence of market all over the world. This helps the company to moderate the various risks associated with over dependence of a particular market. Nissan has a strong market position in Japan, North America, Mexico, China and the Middle East. A wide geographic presence decreases the business risk of the company. This also acts as an easy way for the expansion plans of the company, as a wider reach in terms of geography would mean reaping more benefits and eventually improving the profit margins, attaining economies of scale and recognition on a worldwide basis.

Diversified Business Operation

Nissan has a wide range and strong product portfolio. It is engaged in planning, developing, manufacturing and selling of automobiles. Through its automobile segment, Nissan provides a range of automobiles and related parts for overseas production. The sales finance segment of the company is engaged in the provision of credit card and leasing services, non-life insurance and financing businesses. Such diversified business operations balances the risks of one market with the opportunities of other markets.

Renault-Nissan Alliance

Nissan, with the alliance of Renault, has benefited from operating performance and has accelerated its international development since it was established in 1999. Nissan holds 15% of Renault shares, while Renault holds a 44. 3% stake in Nissan. It was formed to share both companies expertise and cooperate in purchasing, engineering, engineering, production and distribution. To date, Nissan has improved significantly since the forming of the Alliance. During the last fiscal year 2009, Nissan's worldwide sales rose by 0. 9%.

Weaknesses:

Weak Financial Performance

Nissan experienced a weak financial performance in the fiscal year ending March 2010. The company reported revenues of JPY 7, 517, 277 million during the fiscal year ended March 2010, as compared to JPY 8, 436, 974 million in 2009, a decrease of 11% year on year. This decrease was principally due to the increase in raw material and energy costs and a huge negative impact from foreign exchange. Such financial statistic could decrease the confidence of investors.

Low Return on Equity

At the end of fiscal year 2010, Nissan's return on equity (ROE) was 1. 6%. This was below the S&P 500 companies' average of 4. 5%. A lower than S&P 500 companies average ROE may indicate that the company may not be using the shareholders' money as efficiently as other companies in the S&P 500 index and that it is generating low returns for its shareholders compared to other companies in the S&P 500 index.

Opportunities:

Growing Demand for Small and Medium-sized Cars

With the current global economic recession and volatile fuel prices, the demand for small and medium-size vehicles has witnessed a strong growth. As such Nissan could find increased opportunities in the small car division. According to a report by ACEA (European Automobile Manufacturers Association), most of the car types have received decrease in registration for the first 5 months of 2010. However, small cars market share increased from 44. 9% in 2009 to 46. 8% for the five month period of 2010. Thus the shifting consumer preference towards small and mid sized cars offers a strong growth potential for the company.

Growing Demand for Hybrid Vehicles

Demands for hybrid vehicles are growing in the automobile market. Due to the rising energy cost and increased emissions regulations, demand for light hybrid electric vehicles is expected to increase hugely. With regard to environmental and energy issues, Nissan has placed hybrid technology as one of its core technologies. Nissan has also launched its zero emission electric cars to penetrate the demand of such market. Such growing demand will definitely enhance the revenue and profitability of the company.

Threats:

Intense Competition

The global automotive industry is intense. Nissan faces intense competition with many automobiles giants in the world, mainly Honda and Toyota which same as Nissan are Japanese automobiles companies. Besides, small players and new market entrants draw competition to Nissan. To be able to sustain in such high competition automobile market, Nissan should come up with innovative products and services for its customers e. g. Nissan's Leaf zero emission electric car. A highly competitive market such as the automobile industry will affect the company adversely if the company fails to retain and attract new clients/customers.

Legal and Political Framework

The automobile industry is regulated by governments and regulatory authorities in countries where the companies operate. The company's products, operations and profits can be affected by policies made by the authorities. The major regulation changes are mainly emissions, fuel consumption and safety of vehicles. In addition, such changes in policies and regulations will have a negative effect on Nissan's growth and expansion plans/strategies.

Global Economic Slowdown

The recent economic slowdown has affected globally and prominently Europe and the United States. The GDP growth in the US and the Eurozone slowed down further in 2009. Reports suggest that the US real GDP growth fell to negative 2. 6% in 2009 from positive 1. 1% in 2008. Also, the economic growth in the Eurozone decreased to 1. 4% in 2008 from 2. 9% in 2007 and dropped further to as low as 0. 2% in 2009. Although Nissan has its operations across the world, its revenue is generated majorly in the US and Europe. With such economic downturn at the company's 2 key markets, it'll definitely affects Nissan's overall businesses.

Porter's 5 Forces

Barriers to Entry

The barriers to entry into the automobile industry are high due to the market saturation. The industry has a wide choice of selection, and requires constant R&D in order to compete with rivals. With a high overhead cost, high innovation requirement and a market saturated with well established competitors globally makes it unlikely for new entrants. In order to enter such a saturated market, the entrant must be able to develop a desirable and innovative new car concept with affordable prices.

In the case of Nissan, it has been a key player in the automobile industry of Japan and globally as well, and has well established manufacturing plants and distributing channels. Therefore, Nissan will face a minimal rate of new entrants into the industry. As such, Nissan has a low threat of entry.

Supplier Bargaining Power

Supplier bargaining power of automobile industry is a fairly high. The primary concerns are raw materials, readymade automobile parts and power supply to run its production, etc. As raw materials such as steel (car body parts) and rubbers (tyres and accessories) are natural resources, and the supply of these natural resources are limited, with demands from various industries and consumers, therefore the supplier has a leverage in bargaining power.

In the case of Nissan, it was previously Japanese traditional styled company with the keiretsu system between their suppliers. In order to maintain the relation between Nissan and their suppliers, the purchases of supply are overvalued which lead to higher cost of production. With the Alliance of Renault-Nissan in 1999, such system was abolished in Nissan. In the Alliance, Renault-Nissan Purchasing Organisation (RNPO) was established to conduct their purchasing activities. With this strategy, Nissan is able to negotiate its purchasing with their supplier through RNPO. As such, Nissan's supplier bargaining power is moderate.

Buyer Bargaining Power

Buyer bargaining power in the automobile industry is fairly low. There are categories of cars made by different companies targeting different groups of customers. Within each category of cars made, the prices are relatively uniform among the competitors. However, this might vary from countries to countries. High taxation of imported cars in some countries might lead to company reducing car prices in order to penetrate market.

In the automobile industry, the industry remains powerful due to the large customer to producer ratio. However, customers have low/no switching cost and other choices of cars from competitors to purchase, so there is still some buyer power. As such, in line with its competitors, Nissan's buyer bargaining power is moderate.

Threat of Substitutes

The threat of substitutes in the automobile industry is fairly moderate. Other than automobile, there are plenty mode of transportation, but most of them doesn't offer the utility, convenience and value offered by automobiles.

Besides transportation mode, different product type offered by competitors can be an easy substitute. Competitors within the automobile industry are consistently developing their product to distinguish their product from others. Products with different designs, technologies and innovation may cause customers to replace their preferences.

In the case of Nissan, it has a fair range of products from sedans, sports, minivans, SUVs, etc, as well as new designs targeting at different demographic groups. As such, Nissan does not lose out to its competitors that offer different range of automobiles products, which make Nissan's threat of substitute moderate because it's mainly based on customer preferences.

Competitive Rivalry

The automobile industry is quite saturated with plenty of well established automobile companies. Nissan's major competitors are Honda and Toyota as they represent the major players in the industry from Japan. Toyota as the leader of hybrid cars, had significant advantage over its rivals. Nissan has also launched a range of hybrid cars in order to compete with its rivals. Nissan's Leaf is also the world first 100 percent and zero emission car designed for mass market. Such product will bring Nissan significant competitive advantage against its competitors.

With the formation of Renault-Nissan Alliance, Nissan is able to overcome their debt and progress better for the last few years. Despite of declines of Nissan major markets, Nissan (Nissan and Infiniti brand) closed 2008 global sales rising 0. 9% year on year*. The sales are boosted by the launch of new products. Although there are sharp decline in the US markets and low sales in Japan, Nissan in whole progressed globally, which indicates it is able to compete globally with its competitors. As such, the degree of rivalry of Nissan in the industry is high, depending on the different marketplace or region.

Value chain

Firm Infrastructure

Nissan was previously a bureaucratic organisation until its alliance with Renault. With the reform, Nissan now have more integration of offices and administrative function around the world. Nissan has established a “ Diversity Steering Committee” as an entity for making diversity-related decisions. The committee meets thrice a year with the COO and executives from each division to set a range of policies including specific goals, action plans and progress assessment.

Human Resource Management

With the Renault-Nissan alliance, reforms of the executive board are obvious with the change of CEO of Nissan. Other than that, Nissan aims to be an attractive organization where diverse human resources can achieve personal growth. This shows that Nissan has move from its Japanese traditional view towards its employee.

Technology Development

With the world emphasizing on green technologies, Nissan has launched its Nissan Leaf which is an fully electric car with zero emission. Beside this latest technology, Nissan has previously launched hybrid cars.

Procurement

With the alliance with Renault, Renault-Nissan Purchasing Organisation (RNPO) was established to conduct their purchasing activities. With RNPO, Nissan had improved its costly supply chain. From April 1, 2009, its joint purchasing activities will account for 100% of Alliance purchases.

Inbound Logistic

Nissan promotes ethical, environmentally sound actions in all stages of supply chain. It has asked suppliers to uphold the values, laws and regulation that are respected by the company. Environmental impact of products is reduced through green procurement activities.

Manufacturing

Within the Renault-Nissan Alliance, cross production is practised. Nissan has the opportunity to use the manufacturing capacities of its partner. Nissan is able to use Renault plants to produce Nissan vehicles in Korea and Brazil, which add value to the company because Nissan need not set up new manufacturing plants.*

Outbound logistic

Nissan distributes its product not only through its own distributing channels, but also through its alliance partner. This helps Nissan to be able to deliver its product to its customers.

Service

Nissan offers a good and responsible after sale service. Nissan has made a global voluntary recall campaign this year to replace an Engine Control

Module relay or Ignition relay on specific models. The customer will be informed and will replace the parts at no cost.*

Generic Strategy

In order for Nissan to compete with its competitors, the company must have a competitive strategy to seek sustainable competitive advantage. Before Nissan's alliance with Renault, it has a weak strategy. Nissan has invested vast amount of capital on companies that doesn't related to the automobile industry. Worse so, Nissan has no managerial power in those investments. These investments lead Nissan into a huge amount of debts and have no cash to focus on its own business operation. With the alliance, various major changes improved the condition of Nissan. Nissan is able to gain competitive advantages over competitors.

In Porter's generic strategy, competitive advantage comes from an understanding of the 5 forces determining the industry attractiveness. This allows the business to be positioned within the industry. As written above, the 5 forces were being analysed. With the understanding of the 5 forces, Nissan is able to position itself in the industry with competitive advantages.

Nissan has used differentiation mean to gain its competitive advantage. In the automobile industry, products and their functions are merely the same unless the products are distinguished from its competitors. In such, Nissan has gained a competitive advantage by being the 1st automobile company to launch Nissan Leaf, a fully electric car with zero-emission. Besides, Nissan has different designs and categories of automobiles to target different customers.

Nissan is not totally on differentiation. Since its alliance with Renault, Nissan has been able to achieve cost leadership. Nissan has managed to save cost and realising economy of scale by using its alliance Renault plants to produce Nissan vehicles in Korea and Brazil. It also uses Renault distribution channel where Nissan lack of.

Culture

The major change of culture in Nissan is the alliance with Renault. Both companies were distinct in culture from corporate strategies, management and operations. This is because Nissan is a Japanese company and Renault is a French company where there is a diverse culture. In 2002, the Nissan-Renault alliance set up a strategic management company incorporated under Dutch law which is equally owned by Nissan and Renault. It is aimed to establish a common strategy and manage all synergies of the Alliance. In 2009, the Alliance created a small dedicated team to foster deeper, broader cooperation and to maximize the contribution of synergies to the performance of both partners. The team reports directly to the Alliance CEO and meets monthly to review projects and make recommendations to the Alliance Board on new areas of synergies and business opportunity. Besides that, there are trainings provided to executives from both companies in order for Nissan to learn the French culture and Renault to learn the Japanese culture. This harmonises both companies cooperation in the Alliance.

In addition to that, the alliance has more than 30 joint working groups called the Functional Task Teams that involved both companies workforce. These groups operate in all the main sectors and areas of activity and are tasked with exploring new synergies between the two companies. Team managers report regularly to the Alliance Board on the progress made in their specific areas of activity. The companies

Financials

FY 2009

(millions of Yen)

FY 2010

(millions of Yen)

Nissan

Net Sales

8, 436, 974

7, 517, 277

Net Income

(233, 709)

42, 390

Current Assets

5, 580, 410

Current Liabilities

3, 856, 858

Honda

Net Sales

10, 001, 241

8, 579, 174

Net Income

137, 005

268, 400

Current Assets

4, 613, 724

Current Liabilities

3, 419, 130

Source: Nissan Annual Report 2010 and Honda Annual Report 2010

Nissan’s Current ratio: 5, 580, 410/ 3, 856, 858 = 1. 447

Honda’s Current ratio: 4, 613, 724/ 3, 419, 130 = 1. 349

Some basic information are gathered and tabled as above to have an overview of Nissan and its competitor Honda’s financial performance. Nissan recorded net sales of 8, 436, 974 million yen in the fiscal year 2009 and recorded a drop of net sales by 0. 122% with 7, 517, 277 million yen in the fiscal year 2010. Honda recorded net sales of 10, 001, 241 million yen in the fiscal year 2009 and recorded a drop of net sales too in the following year. Honda recorded a drop of net sales by 0. 166% with 8, 579, 174 million yen in the fiscal year 2010. Both Nissan and its competitor Honda have a drop of sales from FY2009 to FY2010; this may indicate that the demands of the industry have dropped. This may be related to the global economic downturn that they're facing.

Nissan has recorded a net loss of 233, 709 million yen in FY2009 but has managed to make net income of 42, 390 million yen in FY2010. With the profitable net income in FY2010, it shows that Nissan has been doing well in the FY2010. Such figure will bring Nissan forward by giving confidence to its stakeholders. However, its competitor Honda has recorded a near doubled increase of net income from 137, 005 million yen in FY2009 to 268, 400 million yen in FY2010. As such, Nissan has done well and had to maintain and improve its performance in order to compete with its competitors.

Nissan and Honda has recorded current ratios of 1. 447 and 1. 349 respectively. Both Nissan and its competitor Honda has a ratio that shows there might be overtrading. This may due to the global economic downturn and the price hiking of raw materials and fuel.