

Strategic analysis (pestel, porter and swot) of bmw

[Finance](#), [Financial Analysis](#)



Introduction

When there prevails high level of uncertainty due to intricacy or brisk changes, it becomes difficult to predict the external environment that might affect the firm's strategies. Thus scenario analysis is done to evaluate the likely views to predict the organization's future business environment (Heijden, 2006). In order to reach this conclusion PESTEL analysis is done to identify the key drivers of change that can be used to predict the scenarios for the future.

PESTEL stands for political, economical, social, technological, environmental and legal and forms of analysis of the macro-environment of the organization (Thomas, 2007).

Political factors

Political factors highlight the probable government laws and regulations, security measures and restrictions that can apply to the industry as a whole. The probable factors that affect the automobile industry are:

Laws and regulations had affected the automobile industry since its outburst. These laws generally revolved around the environmental norms that were to be fulfilled by any car industry. Thus the car manufacturers had to take care of the environmental issues during manufacturing of cars.

Taxes and government foreign policies are critical for the automobile industry. The foreign policies help to us decide the probability of success in the global market.

Introduction of new schemes in the US and Europe automobile industry

wherein regulations led to produce high mileage cars along with increase in automobile sales and production (Hill, 2008).

Economical factors

Economical factors related to the exchange rates, economic growth globally and the business setting prevailing in the industry. Economic factors for the industry are:

a) There was excess capacity of cars produced thus giving rise to high amount of revenue in marketing and new product designs. Thus there was lot of revenue withheld even though demand was less than supply. For example the UK auto market had excess 80% capacity in 2003 which freeze 1. 3 billion euro of the automobile industry (autofacts, 2004).

b) Total increase in the GDP globally from 2. 0% to 3. 1% in the year 2008 (statistics, 2008).

c) Decrease in the exchange rate if euro has hampered the European car makers in a big way (Allen, 2006).

d) Economic downturn in the US market (Copper, 2008)

e) Surplus capital and buying power in the developing economies like India and China and their personal emergence in the global market place.

Social factors

Social factors include the changes in cultures and demographics globally apart from change in buying pattern and capacity of the consumer. Social factors having an impact on the auto industry are:

Changes in the customer predilection from car being a status symbol to fuel efficiency and low emission cars.

Changes in buying pattern of the consumers due to recession in mature markets.

Environmental issues and awareness of the harmful emissions through automobiles

Technological factors

Increase in use of technology to gain a clear competitive advantage

Use of new and sophisticated design to overcome the decreased margins in the industry.

Modifications or restriction on technology causing environmental pollution

Environmental factors

Increasing effect of awareness of global warming, greenhouse effect and burnout among patrons (organization, 2008)

Shift in consumer's tastes and preferences towards use of more eco-friendly cars, hybrid cars, fuel cell cars etc.

Stringent application of the EURO norms set up to curb pollution in developing countries.

Legal factors

Restrictions and strict pollution norms set up in European and US markets

Strict implications of the EURO norms in developing countries e, g, formation of BHARAT norms on the lines of EURO norms in India (CEN, 2006)

PORTER'S FIVE FORCES ANALYSIS

Threats of new entrants:

Threat of new entrant is dependent on the challenges faces during entry into the industry or entry barriers. The threat of new entrants in case of automobile industry is less as large capital cost is required to set up a manufacturing plant and assembly liner. Also it takes time for new entrants to get a place and the reputation in the minds of the consumers.

Threats of substitutes:

BMW has a brand image of being powerful and luxurious. It is positioned in the exclusive car range where there exist many substitutes for BMW like mercedes, GM and Toyoto. Thus the threat of substitutes for BMW is high.

Bargaining power of buyers:

BMW and its competitors are positioned as in exclusive product range. Here the bargaining power of buyers is high because the consumers can decide the product according to the price range and buy the products accordingly. Also with environmental issues hovering over the industry the buyers have the last say with sample substitutes available.

Bargaining power of suppliers:

BMW has good supply chain management system and had long relationship with suppliers. The bargaining power of suppliers is high in this industry as the suppliers can dedicate the price tag for the raw materials. Though long time associations with suppliers can prove fruitful, the final word lies more or less with the suppliers.

Competitive rivalry

Industry has cut that competition for its products, with its products targeting the segment and positioned in a similar way. Competitive rivalry was high in the industry with the dominant US and European markets facing stiff competition from the Asian market.

KEY DRIVERS OF CHANGE

From the PESTEL analysis and the five forces analysis, the key drivers of change are:

Huge deployment of infrastructure and manpower concentrated on automobile industry after the dusk of the second world war

Consumer preferences for product excellence and cost of ownership

Use of design as a chief asset

Technological advancements

Environmental issues

Increase in the implication an brand management rather than product excellence

PRODUCT LIFE CYCLE

The implications of the five forces analysis varies with the industry life cycle.

The elements that underline the industry life cycle are development stage, growth stage, shake-out stage, maturity stage and decline stage. During start up the company is the development stage with high differentiation and innovation as its assets followed by growth stage where the firm experiences high growth with low bargaining power of buyers and less threat of new

entrants. In the shakeout stage the growth is slower and the key assets for the firm are its managerial and financial activities. In the maturity stage the growth is almost stagnant with high entry barriers, high competition but less unit costs and higher market share. Finally in the decline stage the firm is likely to face extreme rivalry with the rational and emotional approach key for the firm.

BMW was in the maturity stage of the industry life cycle. The growth of BMW was stagnant but its products like the 1, 3, 5, 7 series having huge market share and brand identity in mature as well as developing markets. There were high entry barriers in comparison with BMW. But BMW had considerable market share and reputation for being an engineering excellence, an asset of BMW in the maturity stage.

CYCLE OF COMPETITION

Cycle of competition underlines the various drifts between competitors with time. BMW, the German carmaker had a consistent increase in its annual sales and had the technology at its behest to counter its competitors in the market.

BMW's competitive advantage lies in its integral processes and its designs. The use of scientific technology that BMW restores to, can be implemented to gaining higher economies of scale. In terms of competition BMW has Lexus, Mercedes, Toyota, GM, Volvo group etc. as its rivals in the automobile industry. BMW has its product range from a MINI to a Rolls Royce. Thus its

product range varies from a luxury segment to a premium segment in the auto industry.

In the cycle of competition any core competencies or competitive advantage is temporary and in this scenario the closest competitor or BMW is the Toyota group. Toyota group has technology, production capacity; profit margins and product range that can give BMW run for their money. It is also a proved product in immature market territory.

Thus BMW can strive in the cycle of competition through its core competencies and competitive advantage.

STRATEGIC DRIFT

Drift is trying to go towards a direction however fail to do that. This could be good or bad. Strategic drift is when a company fails to work in line with environmental changes however incremental development is evidenced but there is a strong influence of the cultural and historical factors.

BMW and its emphasis on brand development incrementally with the changes in the environment when it outsmarted competition. However the path way dependency paved way for the acquisition of Rover an English brand. This could be due to the companies need for huge production and the consideration happened during that time. This would be the strategic drift. The company beaded with the English brand when it was in the flux phase of the strategic drift. But when the new CEO was appointed BMW went for transformation and Rover was sold to Ford. After this BMW started to

working in tandem with the changes in the environment and developed incrementally.

RESOURCES

Every organization or a firm need and possess certain resources and competences required to endure and thrive globally. In other words every firm has its own strategic capability to survive against all odds (Gerry Jonhson, Kewan Scholes, Richard Whittington, 2008).

The resources consist of-

Tangible resources underlining the physical chattels like plant, people and finance of the organization

Intangible resources underlining non-physical chattels like information, reputation and knowledge (Gerry Johnson, Kevin Scholes, Richard Whittington, 2008)

Resources based analysis of BMW:

SOURCES OF COST EFFICIENCY

Supply cost

Supply cost play in important role and can influence the firm in the bigger way. Supply costs revolves around the raw material supply, production units efficiency etc. supply costs can prove to be an important asset where input cost prove to be critically important for success (Gerry Johnson, Kevin Scholes, Richard Whittington, 2008).

BMW managed its supply costs by setting up manufacturing units at various locations round the globe namely Germany, USA, South Africa, UK and China wherein they employed 104000 workers (Gerry Johnson, Kevin Scholes, Richard Whittington, 2008).

This ensured that the supply costs are reduced with assembly units operating more flexibly and reducing the transportation costs of raw materials.

Economic scale

Economies of scale play a big part in manufacturing organizations or firms since the need is to recover the high capital costs through high volume of output.

BMW achieves economies of scale by increasing its production capacity. BMW had the capability to swing its operations for 60 hours a week during limp demand and whooping 140 hours a week when the demand is at its peak. BMW also had produced an impressive 1.1 million cars in fiscal year 2003 (Gerry Johnson, Kevin Scholes, Richard Whittington, 2008), thus demoing economies to scale to gel with its manufacturing units worldwide.

Product/process design

Product/process design is also a key costs driver. Product design meliorations can help in labour productivity, better yield and maximum utilization of working capital. Product design can also be used to gain competitive advantage over its rivals with simple use of marketing intelligence.

BMW was considered to be the best when it came to product/process design and was tipped as an engineering excellence. It was highly dependable, influential and lavish. BMW also restored new and modern technology for its products thus marketing maximum utilization of the working capital available.

Experience

Experience must prove to be the key asset of control costs and attaining cost efficiency. Through experience the firm should generate competitive advantage through the collective understanding attained by the firm and its unit costs.

The experience curve for BMW is as shown:

The unit costs of BMW are supposed to decline due to the gain of cumulative experience (Gerry Johnson, Kevin Scholes, Richard Whittington, 2008). BMW has been in the automobile sector since the dusk of the Second World War. With the number of units produced increasing per year with the setup of new assembly units, there needs to happen continual reduction of costs in the competitive market situation. This may not provide the necessary competitive advantage, but it proves to be a threshold capability for survival.

Value of network

It is difficult for a single organization to manage all the value based activities right from the design of the product to delivering the final product or service to customer. This process is generally carried out with the help of a value

network. A value network can be termed as a combination of inter-organizational process that proves beneficial to create a product or a service (Timmers, 2008).

The value of network of is as shown. BMW has various assembly locations as well as manufacturing units with each assembly unit having its own supplier of raw materials needed to create a product. Also there exist an internal value chain of the assembly liners themselves. The finished product is again reciprocated to the suppliers and collectively it gives rise to the organizations or the firm's own value chain. The organization has its own channel value chain. The channel value chain for BMW offers its potential customers products ranging from a "MINI" to the higher end "Rolls Royce". These products are priced differently and segmented effectively in response to the target market. BMW also has price variations according to the locations it is striving in. For example BMW is priced in a slight lower side in the Asian markets as compared to the UK or US market. The consumer value chain is based on the channel value chain BMW offers namely price, design and location.

SWOT ANALYSIS OF BMW

Strength:

BMW is a renowned company with a high position in terms of branding and gratitude factor.

BMW is able to sustain its market position lucratively with its hub of exclusive cars.

BMW had exceedingly qualified labour force(Gerry Johnson, Kevin Scholes,

Richard Whittington, 2008) that could qualify as a source for gaining competitive advantage

BMW used advanced technology for its products that embarked its products design, quality and price

BMW had strong relationship with its suppliers which propagated BMW in maintaining a brawny supply chain management.

Weakness

BMW's overall image was too serious and conventional in comparison with its competitors

Low cost products of its competitors

Overdependence on US and Europe market

Opportunity

The increase in number of products sold in spite of the economic downturn

Use of advanced technology for the products

Popularity in developing countries like India and china

Flexibility in development and manufacturing

Low interest rates

Threats

Strong competition in the luxury segment of cars

Economic downturn

New entrants in the automobile industry

Increase in fuel costs

Rising supply costs e. g. steel

Critical success factor of BMW:

The above graph is used to identify the critical success factors of BMW. The y-axis represents the value and the x-axis represents the elements of critical success factor.

According to the graph, the critical success factors for BMW are:

Product quality

Cost of product that justifies product quality

Experience

Product quality is an inevitable and distinguishing factor for customer satisfaction. The brand is identified by its product excellence and cost of ownership. BMW has a status of being number one when it comes to quality, and thus it is one of the critical success factors for BMW. Though the cost of the product i. e. BMW automobile is high it evidently justifies this through its product quality. The experience of BMW in the industry also is a critical success factor for BMW. With its years of experience it has developed a brand identity for its products and very integrated and sophisticated supply chain that ensures its products are delivered at the right time and right place.

KEY SUCCESS FACTORS OF BMW

The key success factors thus of BMW can be summarized as

Business model of BMW

Technology

Brand image

Sustainability

Helmut Panke, CEO of BMW

FACTORS THAT MAY CAUSE ULTIMATE DAMAGE DEMISE OF FIRM

Rising raw material prices and high fuel prices

Change in customer tastes and preferences

Decrease in economies of scale

Extreme rivalry and price wars in the maturity stage

Stagnation of technology

Unfavourable currency effects

Stricter regulatory norms paving way for alternatives like hybrid cars, fuel-cell cars. Electric cars etc.

Mobility precincts emergent urban areas

Probable strategies BMW can restore to redirect profits and to retain endurance for the future are:

1)Market development

2)Market penetration

3)Product development

4)Restructuring

5)Retrenchment

6)Liquidation

7) Vertical integration

This may help BMW achieve a safer tomorrow and help to sustain its BMW'ness for years to come.

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