Case Study: Internal and External Environmental Audit of Automobile Industry in the UK

Navashree Ghosh

6-11-2014

Table of Contents

Introduction 3
External Environmental Analysis 4
PEST Analysis 4
Political Influences 4
Economic Influences 4
Social-cultural Influences 4
Technological issues 4
Internal Analysis 4
Generic Competitive Strategies 5
SWOT Analysis 5
Porter's 5 Forces 5
Conclusion 6
Bibliography 7

The aim of this report is to represent the results of internal and external environmental audit of the automobile industry in the United Kingdom. The external environmental analysis will be done using PEST and Porter's Five Forces analysis whereas the internal audit will be done by focusing on the different automobile brands, technologies, markets, people related to this industry etc. SWOT analysis will be done for analyzing generic competitive strategies in this industry.

Introduction

The automobile industry in the UK is one of the most promising billion dollar industry in the country. The industry is well known for world famous sports car manufacturing companies such as Bentley, Jaguar, Rolls-Royce, Land Rover, Aston Martin and many more. There are other types of car manufacturers such as Toyota, Honda etc.

The following table shows the number of cars and commercial vehicles manufacturers in the UK. (Office for National Statistics (ONS), 2013)

Year	Number of cars	Number of Commercial Vehicles	Total number of vehicles
1990	1,296	270	1,566
1991	1,237	217	1,454
1992	1,292	248	1,540
1993	1,376	193	1,569
1994	1,467	228	1,695
1995	1,532	233	1,765
1996	1,686	238	1,924
1997	1,698	238	1,936
1998	1,748	227	1,976
1999	1,787	186	1,973
2000	1,641	172	1,814
2001	1,492	193	1,685
2002	1,630	191	1,821
2003	1,658	189	1,846
2004	1,647	209	1,856
2005	1,596	207	1,802
2006	1,442	208	1,650
2007	1,535	216	1,750
2008	1,447	203	1,650
2009	999	91	1,090
2010	1,270	123	1,393
2011	1,344	121	1,465
2012	1,465	112	1,577
2013	1,510	88	1,597

The market forecast from The Financial Times says that the vehicle production in the UK will reach to a historic peak by 2017. (The Society of Motor Manufacturers and Traders, 2014) Their prediction says,

Year	Number of production units

2014	1,724,000
2015	1,864,000
2016	1,993,000
2017	2,062,000

External Environmental Analysis

PEST Analysis

PEST analysis is done based on the four groups of influences behind the automobile industry in the UK. The groups are Political, Environmental, Socio-culture and Technological group of influences. Automobile industry includes processes such as manufacturing, supply chains, retails and sales, servicing etc. The possible factors are decided by considering all these processes.

Political Influences

Political influences include competition policies, laws and legislation related to environmental issues, policies and legislations related to automobile Industry, taxations etc. The competition policies have created sheer competition in the industry and affect the marketing strategies of different automobile companies in the UK. One such example is EU completion policy against monopoly in the industry. Environmental issues are handled by laws and regulations from European Environmental Liability Directive. The emissions from gasoline and diesel based vehicles cause severe damages to the environment. Euro 4 emission standard controls emission limits set for different vehicles and different areas. Also, there are encouragement and support from governments to manufacture eco-friendly cars. In London, consumers pay fuel tax to the government. It is higher in the UK than many other countries.

Economic Influences

Economic influences are related to growth and inflations, trade, labor force, income distribution, wealth etc. Economic growth creates a possibility for more sales. Also, it rises opportunities in business as well as in related job sectors.

Social-cultural Influences

Socio-cultural influences include different demographics of population, households, transportation, environmental issues etc. Other than that it also includes social factors such as public health, road safety, car parking etc.

Technological issues

Technological issues are related research, innovations related to automobile industry such as energy saving engines, new fuels, biofuels etc. Tools supporting CAD for car designing etc.

Internal Analysis

Internal analyses are based on the factors such as

i. Resource Audit

a. Brand

b. Market and products

c. Finance

d. Technology

e. People

ii. Value chain analyses

Resource audit can provide information about strategic capabilities, availability of resources etc. Brand acquisitions help in the promotion of business and acquiring the existing market share of the band. Value chain analyses are worldwide accepted process for analyzing relationships among the available resources and business strategies.

Generic Competitive Strategies

SWOT Analysis

The SWOT analysis is done by considering the associated strengths and weaknesses of the industry. Possible opportunities and threats are also discussed. The SWOT matrix is given below,

Strengths	**Weaknesses**
One of the largest industries in the country. Diversity in manufactured products. Such as sports cars, public transports, volume car, trucks, taxis etc. Supports from governments for various projects, Big companies such as Ford etc. supports research and innovations. Power suppliers are high bargaining. Enough capital investments.	High cost in transactions. The structural inertia of the industry.
Opportunities	**Threats**
Demand in the global automobile market. Scopes in inventing energy saving eco-friendly cars. Scope in passenger car manufacturing industry.	Global recession Global overcapacity in the industry. Barriers to market entry. Sheer competition. Fluctuating price of raw materials The industry is highly regulated. The products are easily imitable. Power buyers are low bargaining. Strict laws and legislations, emission controls etc.

Porter's 5 Forces

P5F or Porter's Five Forces is a tool for analyzing the opportunities in an industry by considering its attractiveness in the global marketplace. The five forces are likely to play significant roles in the automobile industry in the UK. The profitability of the industry is likely to be determined by this analysis.

For the UK automobile industry, the forces are,

1. The barriers for new entrants

This is a relatively low threat to the automobile industry in the UK.

2. The bargaining power of buyers

Bargaining power of buyers is lower than many other countries for the same industry.

3. The bargaining power of suppliers

The bargaining power of supplies of raw material, auto parts etc. are higher in the UK.

4. Availability of substitute products

There are several companies in the market. The products are all similar. Customers have lots of options.

5. Intense competition and rivalry

This industry is highly competitive in nature in the UK or possibly in all countries of the world.

Conclusion

This report contains an external and internal audit of the automobile industry in the UK. The analyses have been done using methods such as PEST analysis, SWOT analysis, P5F etc. global recession and status of an economy have affected the market, however, it is still one of the biggest industry in the UK.

Bibliography

[1] Council, T. A. (2010). The Automotive Council UK. Retrieved from The Automotive Council: http://www.automotivecouncil.co.uk/

[2] Office for National Statistics (ONS). (2013). Office for National Statistics (ONS). Retrieved from Office for National Statistics (ONS): http://www.ons.gov.uk/ons/index.html

[3] SMMT. (2014). UK automotive sector. Retrieved from SMMT: http://www.smmt.co.uk/industry-topics/uk-automotive-sector/

[4] The Society of Motor Manufacturers and Traders. (2014, January 23). UK car manufacturing hits six-year high. Retrieved from The Society of Motor Manufacturers and Traders (SMMT): http://www.smmt.co.uk/2014/01/uk-car-manufacturing-hits-six-year-high/