Competition in the Global Automobile Industry

Name

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Introduction

European, Asian, and American carmakers dominate the worldwide car-manufacturing market. The "big five" carmakers in the global industry are Toyota, Ford, General Motors, Hyundai, and Volkswagen. The automobile market is oligopolistic. An oligopolistic market implies that the industry is dominated by a small number of carmakers. Such a market is unique because the business action of one car manufacturer significantly influences the operations of the other players. Statistics published in 2013 by the OICA, a carmakers' association, in 2013 show that the top 10 global carmakers controlled more than 70 percent of the world's automobile market. The financial operations of the players in this industry are mutually inter-reliant. The interdependence of players in the industry was evident during the 2009 economic downturn where the top carmakers in the United States market experienced similar challenges. Despite the fact that major carmakers in the industry manufacture automobiles used for transport purposes, their prices and product features vary. Because of this variation, all the manufacturers use marketing and advertising as crucial tools for competition. Car manufacturers subdivide their markets and charge their consumers different prices depending on their demand elasticity. Competition in the automobile industry can best be described by using Porter's five forces of competition. This paper will analyze the five forces of competition to determine their strengths in relations to the car-making industry.

The Porter Five Forces in the World's Automobile Industry

Threat of Entry

According to Porter (2008), threats of new entry determine whether it is easier or difficult for new companies to enter the industry. Threats of entry are very low in the automaker industry (Uzwyshyn, 2012). New companies cannot enter the automobile industry easily. Car manufacturers, like manufacturers in other sectors, must develop products with unique features. A new entrant, therefore, must have a high capital investment to ensure that they manufacture cars with unique designs, comfort, safety features, and sophisticated electronic functions. Fuel consumption is a major challenge in the automobile industry. Car manufacturers must use modern technology in making engines to ensure their cars are fuel-efficient.

The threat of entry is also very low because the industry gives prominence to brand loyalty. Car manufacturers depend on brand loyalty to ensure that their loyal and existing customers keep coming back. For this reason, it is technically difficult for new carmakers to enter the industry and convince new clients to purchase their products. Examples of carmakers that enjoy strong brand loyalty include Mercedes, General Motors, Volkswagen, and BMW. It will be difficult for new entrants to compete with these companies or brands because they (new entrants) aim at winning new customers while existing companies aim at retaining their customers. Strong brand loyalty offers numerous advantages. For instance, a company with a stronger brand loyalty incurs lower marketing costs than a company with a lower loyalty. Carmakers with stronger brand loyalties also enjoy more freedom in making price changes than manufacturers (new entrants) without. Besides, existing car manufacturers have significant shares in the market as compared to new entrants, who must invest to gain market share or woo consumers to their side (Porter, 2008).

Competitive Rivalry

The second force of competition in the industry is the rivalry between competitors. The internal rivalry in this industry is moderate. The car industry is oligopolistic with 10 global manufacturers controlling over 70 percent of the global car market according to 2013 statistics (OICA, 2013). The top 20 carmakers sold about 78 million cars out of the total 87 million vehicles in 2013. The internal rivalry is only intense among the top five carmakers. However, the rivalry is likely to go higher because of the effects of globalization. Globalization has forced companies to expand and compete in emerging markets (Uzwyshyn, 2012). The rivalry in the car manufacturing business is also moderate because the number of competitors is relative. Despite the industry having more than 50 players, only four companies produced more than 5 million vehicles each in 2013 (OICA, 2013). The internal rivalry between competitors is also moderate because the industry attracts strong customer loyalty.

Threats of Substitutes

The third competitive force in the industry is the threat of substitutes. The threat of substitutes in the global car-manufacturing market is strong. The industry has many substitute companies that are ready to capture the attention of customers sensitive to price (Lee, 2011). Any change in the price of one carmaker will lead to an increase in demand for another. Consumers prefer cars that are less costly and cheaper to maintain. For instance, consumers will prefer substitutes (carmakers) that manufacture durable cars at the expense of less durable cars. Customers will also purchase vehicles that are fuel-efficient and flexible (e.g. hybrid cars). Price-elasticity in this industry makes consumers seek more information on the products before making purchasing decisions.

Power of Consumers

The fourth force in the industry is the bargaining power of consumers. The bargaining power of buyers in the industry is moderate. After purchasing a house, people think of buying cars. Most buyers are sensitive to prices, therefore, would negotiate with automakers to obtain better deals. However, carmakers tend to offer significant discounts to corporations that make purchases in bulk. To create a balanced playing field, where they sell cars for profits while preserving customer loyalty, automakers try to make durable and efficient products. They also provide quality customer services to convince their consumers to purchase cars at profitable prices.

Supplier Power

The last competitive force is supplier power. Supplier power in the car-manufacturing business is very low. The power of suppliers is low in the industry because carmakers have the opportunity to choose parts from a range of manufacturers (Min, 2005). Carmakers go for suppliers with low production and labor costs because they sell less expensive parts. The bargaining power of suppliers also remains low in the automobile industry because some carmakers prefer to manufacture their components. Carmakers often demand price concessions from suppliers because they have a pool of suppliers from whom to choose.

Potential for Profitability for the Industry

The analysis of the five forces can gauge the profitability of the car-manufacturing business. The low threat of new entrants shows that the industry is profitable. The industry only provides room for existing companies by restricting the number of new entrants. Barriers to entry ensure that existing companies recoup profits for their investment. The low threat of new entrants also implies that the industry can regulate the number of competitors. However, the high threat of substitutes lowers the industry's profitability. Car manufacturers face increased threats from substitutes. An increase in price will encourage consumers to look for substitutes. Similarly, a decrease in quality will also force consumers to look for alternative products. The knowledge that consumers can purchase automobiles from other automakers makes the industry less profitable.

The moderate competitive rivalry also makes the industry less lucrative. The "big five" carmakers pose intense competition among themselves, thus, reducing the profitability of the industry. To remain profitable, these manufacturers must segment their markets. For instance, General Motors and Toyota increase their profitability by targeting price-sensitive consumers and emerging markets because they manufacture affordable automobiles. Volkswagen and Ford target consumers who fancy durable cars. The low bargaining power of suppliers makes the industry lucrative as car manufacturers can obtain car components at reduced prices, thus, lowering production costs. The moderate bargaining power of consumers makes the industry moderately profitable as car manufacturers can lure consumers to purchase products at profitable prices.

Recommended Strategy and Strategic Actions

As the president of a global automaker, I would adopt a cost leadership strategy for my company. In a cost leadership strategy, a company strives to manufacture products at a cost lower than its competitors do. I will manage costs in all marketing and non-marketing operations of the company. According to Baroto, Abdullah, and Wan (2012), cost leadership strategy helps companies to create a competitive advantage over their competitors. The company will take several strategic actions to be a cost leader in the industry. First, the company will ensure that it purchases parts from less expensive suppliers. The company will take advantage of the low bargaining power of suppliers in the industry to obtain car components at relatively cheaper prices. Second, the company will target price-sensitive consumers. Having reduced production costs by purchasing less expensive car components, the company will find new markets where it can sell high volumes of cars at competitive market prices. Third, the company will use the just-in-time system to be a cost leader. This system involves delivering products whenever consumers need them. The company will open manufacturing plants in markets with cheap, skilled labor to reduce production costs. According to Ketchen and Short (2011), a cost leadership strategy is beneficial as it discourages new entrants into the industry.

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