Introduction to Strategy Assignment 2

Research Report

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**Executive Summary:**

The HMG Conglomerate, which includes vehicle manufacturer and seller giant Hyundai, is proposing a relocation of its headquarters and all manufacturing operations to Australia. The purpose of this report is to advise on whether or not such an operation should be completed. This will be achieved through the use of multiple analyses techniques including; a PESTEL analysis, Porter’s Five Forces analysis, a VRIO analysis and finally a SWOT analysis. These analyses allowed an in-depth view of the macro-environment factors, the competition of the industry and HMG’s current and predicted resource position as well as its competitiveness.

To complete the report, many different sources of secondary research was necessary to understand the climate of Australia and the competitive industry in which HMG would inevitably find itself in. Despite this, select primary sources were used such as Government statistics i.e. the Australian Bureau of Statistics and information extracted from the Parliament of Australia. HMG specifically, Hyundai’s financial reports were also necessary to aid in making a judgement on the potential relocation.

Key findings of the report indicated no significant vehicle manufacturers are remaining in Australia, meaning the market is open to Australian manufacturing despite its significant costs. The threat to the relocation is mostly from costs in Australia and the threat of new manufacturers who may arrive later on in Australia. It was discovered that HMG has the necessary strengths and limited weaknesses to seize the opportunity presented via this relocation proposal. In terms of resources, many that HMG possesses can, unfortunately, be imitable, but the number of resources can easily be exploited for a tremendous competitive advantage. Fortunately for HMG, in PESTEL terms, Australia has no issues should HMG relocate to Australia. Therefore, HMG’s relocation to Australia from the outcome of the analysis is sanctioned.

The result of this report states that Australia is indeed a suitable nation for HMG’s relocation. Specifically, which state to relocate to, CommSec reports found the state of Victoria was lacking in manufacturing. However, the state is also known for its excellent economic performance and high technological innovation which would suit HMG’s needs perfectly in this case.

Therefore, it is recommended that HMG relocate their operations to Victoria in Australia. Through exploiting newfound Australian innovation and quality workmanship, combined with a strong sales position and new marketing strategies, HMG can implement a newfound success across the globe.

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9. **Introduction:**

Hyundai Motor Group (HMG) is a car manufacturing and seller through official HMG stores and other automotive sellers. They are based in Korea and their operations are transnational with “432 offices in 49 countries” (Hyundai 2020). With this in mind, HMG already has large resources and established business practice in place globally. This means they do not need to invent branding to attract customers and employees or develop entirely new business with new operations. The groundwork i.e. sales and other sectors are already in place. However, this does not mean the implementation of manufacturing, HQ relocation and warehousing will be without difficulty despite the lack of manufacturing competition. To determine if this move will be valuable and feasible, certain analysis of Australia’s politics centred on climate change, air pollution and emissions must be conducted. To achieve this, a combination of PESTEL analysis, VRIO analysis as well as Porter's five forces and SWOT analysis will be used especially when selecting the ideal state in Australia to suit HMG’s operations.

**2.** **P.E.S.T.E.L.:**

The PESTEL analysis is required here to appropriately assess the macro-environment. This will allow HMG to evaluate if Australia’s many policies and macro factors will be beneficial for the relocation HMG is planning to complete. These factors are; political, economic, social, technological, ecological and legal.

**2.1 Political-**

The political climate of Australia is that of a federal parliamentary constitutional monarchy. The relocation that HMG is contemplating will hold similar challenges to what is currently experienced in South Korea. However, these challenges are not political as Australia’s current political climate encourages foreign business investment. Despite this, climate-changing industries are not entirely welcome as Australia’s emissions target is aiming to be “5% below 2000 levels by 2020 (under the Kyoto Protocol) and [26-28% below 2005 levels by 2030](https://www.environment.gov.au/climate-change/australias-emissions-reduction-target) (under the Paris Agreement).” (Hanna, Parliament of Australia 2020). Even so, As HMG is distressed about such a policy, there are options to combat this issue such as using an alternative energy solution, which can also enhance their brand image upon relocation to Australia, potentially providing sales and minimising overhead costs. With that said, (Hanna, Parliament of Australia 2020) have said only 6% of Australia's carbon emissions were a result of manufacturing. As for what state, Australia’s emissions policy is national and does not vary state-by-state. As a result, relocation of HMG’s headquarters and manufacturing to Australia would not be subject to penalties regarding Australia’s emissions target.

**2.2 Economic-**

Economically, relocating to Australia is a worthwhile move for HMG. With a notable lack of car manufacturers and Australia’s underemployment rate- which is people who would like to work more- which is rising, sits at approximately 1.1 million people (Santander 2020). Not only would the move be encouraged by the Australian Government in creating jobs, but it can also ease the underemployment rate which would certainly boost production, efficiency, publicity and conveniently, HMG’s overall image as a business. However, determining which particular state to base operations in is difficult as all states have been performing well. Despite this, Victoria is the standout state in recent years with economic growth of $442,955m (ComSec 2020) and low equipment investment meaning that there is ample room for Hyundai's manufacturing to grow within that economy. Therefore, the economic factor surrounding Australia is in a good light in recent years and holds no real threat to an HMG operation.

**2.3 Social-**

The macro social effects existing within Australia matter little to HMG’s operations or their relocation. Only perhaps further into the future would these factors become of extreme significance to HMG’s operations. Nonetheless, Australia’s population is aging considerably fast and is approximately 25 690 154 (ABS 2020). This is an issue as, by 2055, almost 10 million out of 40 million Australians will be over the age of 65 (ABC, 2015). Compared to that of South Korea’s population of 51 263 874 (Worldometer 2020). Australia’s population is half the size of Korea’s which can signal issues filling vacant jobs or perhaps far lower sales than current sales in Korea. Despite the eventual ageing situation and a smaller population, Australia’s social factors are minimal if ineffectual upon HMG’s operations as a manufacturer at the current moment.

**2.4 Technological-**

Australia’s innovative capabilities are extraordinary. This capability can be utilised by Hyundai to gain an edge throughout the world in gaining market share and sales especially since no other car manufacturers are present in Australia. Now is the perfect time as NAB has pledged to add $2 Billion to technology innovators in Australia (Targeted News Service 2019). HMG could potentially take advantage of this grant to innovate with other Australian businesses and create an innovation empire to get ahead of competitors in the automotive industry. Selecting Victoria as the prime state for relocation is also excellent for technological innovation as it is economically. This would achieve one of HMG’s primary goals of innovation and as such become market leaders ahead of the competition.

**2.5 Ecological-**

Emissions pollution and global warming are increasingly notorious topics for businesses and manufacturers in particular as many nations around the globe are told to reduce carbon emissions to curb the effects of global warming. Australia is no exception. As of 2019, Australian produced emissions have been decreasing and renewable energy increasing (Targeted News Service, 2019) due to lower costs, consumer choices and technology improvements. This can be to the benefit of Hyundai as a primary goal of relocation is innovation. Not only is renewable energy generally more productive than previously, which lowers energy costs, but this focus on renewable energy can aid in product innovation as a primary focus instead of current fossil fuel products and can aid in rebranding HMG’s image.

**2.6 Legal-**

Regulations and legal hurdles must be overcome as soon as possible for Hyundai to succeed in Australia. For example, registering Intellectual Property especially for new ideas as well as transferring all operations to Australia. In relocating to Australia, HMG will need an Australian Business Number (ABN), Tax File Number (TFN) and manufacturing permits as well as selecting a business structure (Walsh, 2019). Relocation essentially ensures that HMG must become an Australian business and therefore must adhere to all Australian business laws. Aside from becoming and adhering to Australian laws, the legality of the relocation is sound and can be dealt with easily.

**3.** **Porter’s Five Forces Analysis:**

Porter’s Five Forces analysis is a framework that will aid HMG in visualising the relocation to Australia in terms of HMG’s competition in Australia. The analysis will enable HMG’s strategic planners to understand the forces at present and identify the strengths of those forces and their impact upon the industry. These forces are; the degree of rivalry, the threat of entry, threat of substitutes, the bargaining power of suppliers and finally the bargaining power of buyers.

**3.1 Degree of Rivalry-**

The degree of rivalry is the element of which competition is fierce between competitors. As Australia’s automobile manufacturing industry has effectively ended as of 2018 (Kennedy, 2018), there is no element of rivalry in Australia to affect HMG’s operations as a manufacturer. However, as a seller to the public, HMG faces stiff competition from other businesses such as Holden, Ford, Toyota, Nissan and many others who already have dealerships present in Australia. The amount of rivalry from a sales perspective is very high. Due to the amount of competition in sales, buyer bargaining power is strong which has contributed to this degree of rivalry.

**3.2 Threat of entry-**

The threat of entry refers to how well-established businesses are in a certain industry. Within the car manufacturing industry, having no competitors translates to the fact that any new entrants will have a very high threat upon entry in that industry. Since HMG already has a sales platform within all states in Australia, HMG does not need to ‘break-in’ to the Australian car sales market. As this is the case, the new entrant threat in automobile sales is quite low as there already are multiple competitors and as well as high Government taxes on all imports (Pratap, 1. 2019, para. 2). Therefore, the threat of new entrants to the sales market is low, but to manufacturing the threat is high.

**3.3 Threat of substitutes-**

Substitution is switching from one product to another that fulfils the same or a similar purpose. In a manufacturing sense within the Australian automobile industry, whilst there are no competitors at the present moment, substitutes can potentially crop up once Hyundai establishes itself. This threat is therefore quite low initially, but can easily become an issue as businesses attempt to imitate HMG’s success. However, there are numerous car businesses selling vehicles in Australia and this raises the threat of substitutes considerably as the choice and chance of substitutes rises considerably with every competitor. Despite this, many opt for public transport in urban areas of Australia over cars as it is far cheaper which can be a threat to substitutes (Pratap, 1. 2019, para. 5). Therefore substitutes can be high in terms of sales and public transport, but from a manufacturing point of view, substitutes have a low threat level initially.

**3.4 Bargaining power of Buyers-**

The bargaining power of buyers i.e. consumers is the balance of power consumers hold over suppliers concerning product choice among the competition in an industry. In this case in Australia’s automobile industry, it is quite high as there are numerous alternatives (Pratap, 1. 2019, para. 4). It continues with “Brands focus on building customer loyalty through design, quality and by offering competitive prices”. Should HMG relocate to Australia, Hyundai will be the only car manufacturer in Australia However, many other corporations import their vehicles and hold many of the buyers “fleets of vehicles” contracts that are of large value. Despite this, there are also numerous “small individual buyers” who also contribute to this competitive market. A positive of this is that there is no risk of any buyers being able to achieve “backwards integration”. As there are numerous companies already supplying cars to the public, buyer bargaining power is quite high as each consumer can choose any one of the competitors and the potential substitutes that vehicles business sells.

**3.5 Bargaining power of Suppliers-**

Suppliers to Hyundai and other vehicles similarly have low bargaining power compared to the high bargaining power of buyers. There are numerous suppliers to choose from all with raw materials which are easily accessible combined with low switching costs ensures that all suppliers have little bargaining power when dealing with manufacturers (Pratap, 1. 2019, para. 3). This is a bonus to HMG should they relocate to Australia as inputs for their products will be as low as possible meaning this will reduce the costs of manufacturing their products in Australia. To further add to the powerlessness of suppliers in this scenario, there is also no chance of forward integration that for example, suppliers were able to do in the airline industry. Therefore, HMG should have little concern over supplier power as it is very low in this circumstance.

**4.** **VRIO:**

A VRIO analysis is one that judges a corporation’s unique resources and analyses if a strong competitive advantage arises from it and how sustainable it is for that organisation. This is achieved through valuing the resource i.e. does it provide value for the business and consumers? Interpreting the rarity of the resource, which simply means do other businesses hold such a resource? The ‘I’ stands for the inimitability of the resource meaning can it be replicated and if so how easily. Finally, ‘O’ is the organisational support available which means how the resource will be supported.

**4.1 Value-**

A resource’s value is judged by how much it takes advantage of the opportunities available and what it provides for customers. It must be worthwhile. For HMG, their valuable resources pre-relocation are their unique global position, large product selection, production abilities and innovation whilst also maintaining their customer loyalty and HR culture (Pratap, 1. 2019, para. 7). HMG’s sales and production in Korea accounts for over 30% of sales and production of their total global sales and production (Hyundai Financial Report, 2016). HMG’s relocation to Australia whilst a good move would shift their unique resource to also include excellent Australian workmanship and innovation. This will provide HMG with higher quality vehicles than what is being produced currently and consequently, higher sales. Unique human resources are difficult to maintain but provide excellent returns for a business and are an excellent resource. HMG’s current valuable resources are numerous and are a competitive advantage should they move to Australia.

**4.2 Rarity-**

The rarity of resources available to HMG at the present moment is very high. The resources as mentioned previously of; strong brand image, large product selection, excellent global position, good production abilities and innovation, great customer loyalty and highly rated HR culture (Pratap, 1. 2019, para. 7). All of these resources are rare except for customer loyalty and HR culture. Many other businesses have a great working relationship with employees and customers and as such, any HR that HMG acquires in Australia can easily change business. Therefore, HMG must take care to maintain these resources, especially any human resources.

**4.3 Inimitability-**

The current and future unique resources of HMG all have an issue should other businesses capitalize on the success of HMG’s move to Australia. That is the replication of their unique resources. Many others car sales or manufacturers also have an excellent global position, large product selection and great customer loyalty and highly rated HR culture and these, in particular, can easily be inimitable by any other vehicle business (Pratap, 1. 2019, para. 7). However, the other unique resources are extremely difficult to imitate and as such HMG can continue to exploit them without fear.

**4.4 Organisational Support-**

Organisational support of HMG’s unique resources is critical. The correct software systems will be vital for HMG to ensure that they utilise their resources as advantageously as possible before any business begins to imitate it. Manufacturing plants are especially required before relocation as well as the hiring of correct staff for innovation. These resources must have the appropriate systems such as; staff support and division, manufacturing software, HQ operations etc. Without the support of systems delivered from HMG, their unique resources will mean little or simply be ineffective in achieving their goal of innovation and prosperity and their competitive advantage lost to other businesses (Pratap, 1. 2019, para. 7).

**5.** **SWOT:**

A SWOT analysis is used to gauge the businesses overall position. The positives and negatives that exist in and around as well as threats and opportunities that help to determine the next decision a business should make.

**5.1 Strengths-**

HMG is a business conglomerate that has numerous strengths it can take advantage of. Firstly, they are an established transnational corporation that has strong sales and market share in many countries especially the Asian and specifically, the Korean market which is currently dominated by HMG, creating strong sales revenue. HMG has a large product selection and very strong brand equity. HMG also has an excellent manufacturing ability coupled with a strong supply chain and distribution network of which heavily focuses on eco-friendly vehicle innovation (Pratap, 1. 2019, para. 2). The rebranding and updating of Hyundai and HMG’s appearance are key to improving the business especially whilst relocating to Australia.

**5.2 Weaknesses-**

Despite the strengths of HMG, they have weaknesses in the organisation. Currently, HMG is experiencing a dent in its brand image over product recall and having to increase spending on marketing worldwide (Pratap, 1. 2019, para. 3). Although these weaknesses will affect Hyundai, they are minuscule issues that can be overcome with the correct management of these same issues.

**5.3 Opportunities-**

The opportunities available to HMG are extensive. The relocation to Australia brings with it the potential to fulfil new and improved quality standards in HMG products as well as create new innovative designs to go along with HMGs rebranding, creating a controlled and updated business. In terms of innovative products, electric cars in Australia are given numerous subsidies by the Australian Government and represent less than 1% of all vehicles (Newcastle Herald, 2020. para 3 & 4). The electric vehicle market is wide open and a perfect place to create vehicles that can perform well whilst maintaining high levels of charge. AI and digitisation innovation is also extremely encouraging in Australia which presents a new front of products for Hyundai in innovation. Due to the trade agreements Australia has with many Asian nations, the growth in Asia can aid Hyundai in manufacturing for Asia (Pratap, 1. 2019, para. 4). This opportunity is exactly what HMG can utilise to reinvent their brand and gain huge leads in many markets across the globe.

**5.4 Threats-**

The threats that exist to HMG is simply their competition, Australian law and currency fluctuations. The stiff competition which HMG faces such as other international vehicle manufacturers will also be seeking innovative employees as HMG aims to accomplish. The cost of manufacturing in Australia due to labour and energy is immense as well as the cost of relocation. Combine this with the fact that car sales are declining (Newcastle Herald, 2020. para 3 & 4) and the laws Hyundai needs to comply with means these threats are both time consuming and expensive (Pratap, 1. 2019, para. 5). Currency fluctuations can affect demand for goods, but alas it is a factor beyond HMG’s control. This will inevitably interfere with the relocation of HMG and consequently the ability of HMG to achieve the goals they have planned for.

**6.** **Recommendations:**

Relocation of one’s entire operations and manufacturing from one nation to another is no easy or cheap feat. HMG conglomerate’s move from Korea, where they hold an established leading position to Australia where they hold only a comparatively small but established sales position is no exception. To avoid the threats from obstructing the success of HMG and to capitalise on the opportunities available, many actions must be taken. It is strongly recommended HMG complete this move as soon as possible. This rapid change may cause inevitable hiccups but will enable HMG all the more time to not only complete the move but also to begin new operations in Australia utilising the new resources HMG has acquired. Quickly relocating will also leave competitors who wish to replicate the success of HMG less time to perform their relocation of operations, leaving a large amount of time open to HMG to increase their market share and cement their unique resources such as their newly acquired human resources and strong brand position.

One of HMG’s many targets is to improve company innovation of their products and branding. Given the relocation is successful, HMG can sponsor scientific events and through such events gain new insights through the populace on innovating Hyundai. If such a method is not possible, partnering with many local Australian innovation businesses can aid in spreading brand awareness and also with innovation inside the business. Whilst at a higher cost, this can lead to industrial level innovation to fulfil HMG’s goal.

Finally, HMG must begin creating new advertising strategies as their current strategies simply are not seizing additional market share as sales improvements are declining as well as rising costs. In short, HMG’s profitability is declining and must seize the initiative. Therefore with these recommendations, HMG can succeed in their relocation efforts.

**7.** **Conclusion:**

Ultimately, any complete relocation of a business and all of its operations is a costly and time-consuming endeavour. However, relocation is a fantastic method for reinventing the business and gaining new innovative ideas as it forces the business out of complacency. This thrust into a new environment can often produce either one of two outcomes; business rejuvenation and success or utter failure. HMG’s planned relocation to Australia according to the many analyses conducted has indicated that this particular relocation move has many existential benefits as well as ones that will inevitably arise compared to a minuscule amount of issues. The PESTEL analysis, for example, displays that politically, socially, economically, technologically, ecologically and legally, that the macro-environmental factors affecting Australia are of no consequence to a move by HMG. Porter’s five forces analysis further illustrates this as without any manufacturing competitors, HMG can easily capitalise in the Australian market but will be easily challengeable should another business replicate HMG’s operations. The VRIO analysis also correlates with the previous analyses in saying that the unique resources available to HMG, while able to be imitated, can give rise to other unique resources and as such HMG should relocate to Australia. Finally, the SWOT analysis concludes that HMG’s many strengths and weaknesses can be enhanced or reduced depending on the success of their relocation and the opportunities available. As a result, it is recommended HMG rapidly implement this move to avoid competition and to take advantage of current strengths and resources to gain a superior competitive advantage that the relocation opportunity presents.

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