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Analysis of the Relationship between Sales and Promotions in the Automotive Industry based on the Porter's Five Forces Model

Xinyue Geng[1]

[1]International department, Zhong Hua High School, Nanjing, China
*Corresponding author: gxy20089899@outlook.com

Abstract:
Increasing sales in the automotive industry is one of the most important issues that many companies are working on today. Many people believe that promotions can have a great impact, however, there is still a lack of uniform interpretation of the impact of promotions on sales in the automotive industry, as a sequence this paper would like to use the Porter's Five Forces Model to further analyze the relationship between the two, through the analysis of the impact of each of the five aspects. The research found that promotion can increase sales, in competitive rivalry by which it can reflect the advantage, but for the reduction of the bargaining power of the supplier's impact is very small and even bring more pressure to the enterprise. However, for the three aspects of the Porter's Five Forces Model, all of them play a positive role, as a result promotion is a very good method for increasing sales.

Keywords: Cars industry; porter's five forces model; promotions

1. Introduction

With the increasing globalized competition of cars industry, the penetration of intelligent cars is increasing, leading brands are accelerating their research on technology. Besides, mass-produced automobiles are distinguished by their internal combustion engines that run on gasoline and their all-steel body constructions. Because of these technologies, businesses are unable to make very large initial capital investments, the majority of which are sunk costs that must be recovered through the sale of a significant number of cars annually. This was a trap because each competitor had to sell a large number of cars to achieve the point of break-even [1]. Therefore, more and more companies are focusing on how to make their business stand out. Promotion is one of the most efficient ways to do so, and it has a positive impact on brand sales in the automotive industry. This essay applies Porter's Five Forces Model to analyze the relationship between sales and promotion, because this model is very advantageous in analyzing the competition in such fast-changing industries, basically all types of variables can be covered in these five broad categories and also avoiding strategic disorientation. In this era of technological change in the industry, it will not only not fail but will also diagnose the right way to go.

2. Literature Review

Porter's Five Forces Model, developed by Michael Porter of Harvard Business School, summarizes the five core forces that influence corporate strategy making and brings together the different factors in this model: Bargaining Power of Suppliers, Threat of New Entrants, Threat of Substitutes, Current Competitive Rivalry and Bargaining Power of Buyers.

Based on this model, the competitive environment and attractiveness of an industry can be assessed to help companies formulate their strategies. Porter argues that the key to business strategy is to determine a company's relative competitive advantage, so he proposes this model, which determines the intensity of competition in an industry The data analytics and management software provided by technical software suppliers is key to the digital transformation of inspection organizations, and the bargaining power of suppliers is not only determined by the technical sophistication of their products, but also by the purchasing strategy of inspection organization and the market demand. For example, in the field of smart connected cars, the market demand for simulation software continues to grow, which further strengthens the bargaining power of suppliers. Data analytics software, on the other hand, requires vendors to provide better services to maintain market share due to the large number of open-source alternatives [2].

2.1 Bargaining Power of Buyers

It refers to the ability of customers to influence the profitability of a firm through price pressure or higher demands. Purchasers have a significant impact on the profitability of current enterprises in an industry, primarily by exerting pricing pressure and demanding higher quality products or services. Buyers are often more likely to have significant bargaining power if they meet the following criteria: although there aren't many buyers overall, each one makes a significant purchase and contributes significantly to the seller's sales. There are a lot of relatively tiny enterprises in the seller's industry. The buyers are effectively purchasing the same item, and purchasing from multiple sellers once is quite viable from an economic standpoint. For example, in the beverage industry, consumers have much demand but low discrimination of taste, so the price competition in the beverage industry is fierce [3].

The rise of price comparison platform to promote information transparency, weakening the brand information asymmetry. Now is also the demand for personalized each household for the technical experience and brand requirements are different, so for the price of the higher sensitivity, promotional price cuts directly enhance the efficiency of consumer decision-making, reduce the comparison of consumers in different brands directly promote sales.

2.2 Threat of New Entrants

The ease with which new firms can enter the industry affects the competitive pressures on existing firms. As new entrants seek to gain more market share, they bring with them more resources and new technologies to this industry, which may compete with existing firms, ultimately lowering the profitability of existing companies in the sector and, in extreme situations, possibly endangering those businesses' ability to survive. In the snack food industry, the barriers to entry are low but the market will produce a rush for resources, which is a threat to the already established brands, but it is difficult to exceed in a short time [4]. Therefore, the severity of the threat of competitive entry depends on two factors, namely the size of the barriers to entry into the new area and the expected response of the incumbent to the entrant. Barriers to entry include economies of scale, switching costs, sales channel development, government behavior and policies, natural resources (e.g. metallurgy's ownership of minerals), and geography (e.g. shipyards can only be built in seaside towns), some of which are difficult to break through.

2.3 Threat of Substitutes

It refers to the products or services of other industries that satisfy the same demand, thus reducing the attractiveness of the industry. The products produced by two companies in different or the same industry are substitutes for each other, thus generating competitive behavior between them. The main factors affecting this are the value for money of the substitutes and the cost to the consumer of switching to the substitutes, and if the substitutes can offer both high quality but low prices, the competitive pressure that they can generate will be strong. Existing companies then have to improve their product features or grow profits by reducing costs. Otherwise, they will be replaced. For example, digital cameras and mobile phones severely squeezed the film camera market, Kodak declined [5].

2.4 Competitive rivalry

It refers to the intensity of competition among similar firms in the current market. The number of competitors, the growth rate of the industry, fixed costs or product homogeneity are all factors that influence the degree of intensity. Existing competitors are the most powerful force automotive companies face need to grab more consumers through various means, such as price, advertising, product quality, after-sales services and other aspects. Promotions are the core weapon to grab the share, BYD's "Electricity is lower than oil" battle: Qin PLUS DM-i cut price to 79,800, wins first annual A-segment sales title as fuel rivals' share shrinks [6]. However, barriers to exit are high in the automotive sector, i.e. it is more costly to exit competition than to remain in it. Here, economic, emotional,

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and socio-political relations considerations are mainly barriers, including asset specialization, fixed costs of exit, emotional difficulties, and societal constraints.

2.5 Bargaining power of suppliers

The supply side is an important factor in providing a quality base in production. It is also the key to good value for money. The strength of the bargaining power is related to the importance of the product to the buyer, substitutability, and cost. If the supplier has a strong market position and a large number of buyers, it has a strong bargaining power. In the automotive industry, suppliers have strong bargaining power. In the case of suppliers of technical software, for example, statistics and analysis of data are key to achieving digitization. Especially in the field of intelligent networked cars, the market demand for software grows year by year, these suppliers also put forward more requirements, such as autonomous driving chip smart cockpit software, etc., in the enhancement of the bargaining power of the supplier at the same time, but also need to optimize the service of the software supplier in order to attract more enterprises [2].

3. Research Gap Study

Overall, in the automotive industry, the bargaining power of buyers continues to increase, the threat of potential entrants is low, the threat of substitutes is rising, competition from incumbents is the most important factor affecting sales, and the bargaining power of suppliers is strong in the battery raw material segment but low for traditional component suppliers.

As mentioned above, promotions directly lower the threshold of consumer decision-making and shorten the purchase cycle, thus creating a win-win situation. For economic models is a good strategy but for high-end models pulls down the brand tone, in addition to price cuts they can also provide better services to attract consumers such as the NIO offer to buy a car to get a voucher for the exchange of electricity offset a lot of the car's future expenses. Promotions make potential entrants less threatening, and price wars compress profit margins while making it harder for new entrants to make a profit, so their willingness to enter becomes lower, as a result current companies can take up more market shares. Promotions to delay the travel mode is replaced, price reductions can enhance the cost-effectiveness of private cars to reduce the attractiveness of cabs and public transportation to consumers, but in fact cannot be completely replaced by alternatives to the core strengths of the solution to the user's cost of travel efficiency and convenience, rather than simply price competition, such as cabs on call, without parking and maintenance for young people are more convenient. For the automotive industry, the promotion of the most influential or for the existing business competition, but also the core weapon of the share of the fight. The head brand promotion will squeeze the competitor's living space impact, but the sales volume will be greatly improved. Promotions for the role of suppliers is minimal, there can only be car companies will be the pressure to transfer to the supplier, forcing the supply chain technology upgrades if the quality of the higher competitiveness. However, especially for some cars with high tech chips car companies have less bargaining power and promotions only make their own margins smaller. Therefore, combining all five aspects, promotions have a positive impact on sales.

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