



New Trends and Issues Proceedings on Humanities and Social Sciences



Volume 4, Issue 10, (2017) 202-207

www.prosoc.eu

ISSN 2547-8818

Selected Paper of 6th World Conference on Business, Economics and Management (BEM-2017)

04-06 May 2017, Acapulco Hotel and Resort Convention Center, North Cyprus

Environmental analysis of auto industry in Iran: Analysing the internal and external environment of IKCO corporation

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Suggested Citation:

Safari, M., Gorjini, S. & Souri, H. (2017). Environmental analysis of Auto industry in Iran: analyzing the internal and external environment of IKCO Corporation. *New Trends and Issues Proceedings on Humanities and Social Sciences*. [Online]. 4(10), 202–207. Available from: www.prosoc.eu

Selection and peer review under responsibility of Prof. Dr. Çetin Bektaş, Gaziosmanpaşa University, Turkey

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Abstract

The automotive industry includes all design, development, manufacture and selling accessories for motorised means of transportation. Iran is among the world's 20 largest automotive manufacturers and is in the number one position in the Middle East. Iran Khodro is the largest and most important car manufacturer in Iran and the Middle East, which was founded in 1341. It produces a variety of light and heavy vehicles in collaboration with foreign partners or alone. The aim of this study is investigating and analysing the internal and external environment of automobile manufacturing industry in Iran emphasising on Iran Khodro automobile manufacturing company. For the purpose of this study, the accumulated data of Iran Khodro automobile manufacturing company were analysed and the most important strengths and weaknesses point were compiled and presented in the aspect of internal environment and opportunities and threats in the aspect of external environment.

Keywords: Strategy, strategic planning, environmental analysis, weakness, strengths, Iran Khodro.

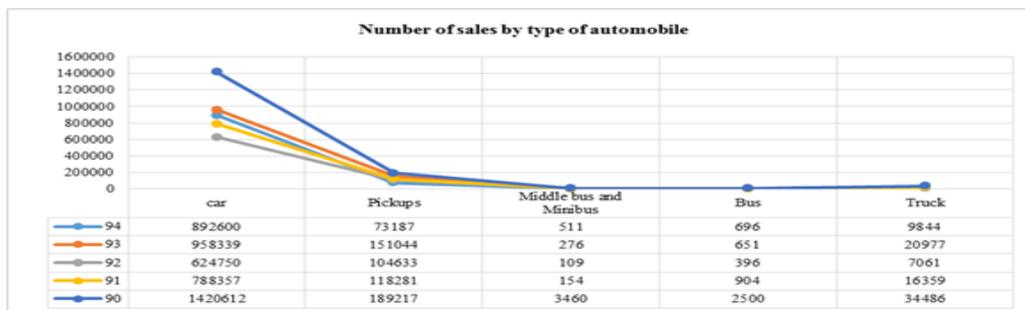
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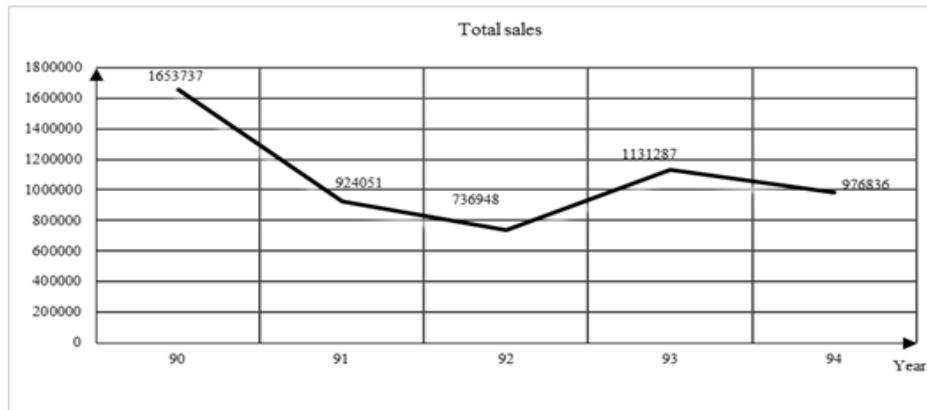
1. Introduction

According to the Iran Khodro extensive supply chain as a competitive advantage of Iran Khodro, domestic of imported components from countries has had difficulty because of sanctions and barriers to the currency transactions, identifying new sources to supplying materials and components that were accelerated in other countries. Also, accelerating mass production of Rana automobile as an alternative to Peugeot 206 automobile that because of sanctions and decision of the Peugeot custodians. Base of the planning was on market demand that separated in terms of precious fractions and by creating product diversification, increasing variants, products promotion and also increase circulation (gain the maximum of market share) attempt that Iran Khodro maintains its leading role as previously and have a greater customer’s satisfaction. Therefore, in formulating company’s products portfolio, the approach of products strategy formulation based on market research information, laws and regulations and standards, entry of new competitors, changes in the type and quantity of competitor products, export strategy, the creation of a new organisation and analysis of current and future potential of Iran Khodro. By considering growth and maturity of automotive customers and the relative saturation of demand in the auto market, status and importance of the areas of product quality and quality after-sales service increased in the market to attract costumer and raising competitive power of Iran Khodro company.

2. Iran Khodro industrial group: Economic, industry and market trends

Iran Khodro founded in 1962 aimed to produce and sell a variety of automotive and its initial name was Iran National. Over the years, the company is seeking to expand its activities by producing 1 million automobiles, and by using 21 thousand personnel became the largest industrial group in the middle east and North Africa (MENA) that carried out industrial and service activities in the automotive sector. Iran Khodro with the aim of achieving world-class status established research centre and automobiles testing centers, motor development, latest machineries and production’s equipment. Measures were achieved in cooperation with major European countries, Germany and France in the automotive sector. Iran Khodro has several subsidiary companies that assist company to achieve goals in the form of a single group. These companies are active in various sectors including providing components, systems and equipment, after-sales service, driving force etc., Iran Khodro also has been invested in the areas of investment, finance, leasing and business development.





3. Sales of Iran’s vehicles

According to Focus2Move site statistics, a total sale of new vehicles in 2013, were equivalent to 601,407 units in Iran which represents an annual growth of 17.9%. In early 2014, signs of recovery were observed and according to the Focus2Move site, sales of new vehicles by 1.27% growth in the first quarter of 2014 raised to 157,156 units. Current trends will lead to the production of 630,000 units in the year which represents an annual growth of 5%. This significantly depends on the progress of negotiations between Iran and 5+1. If the sanctions be permanently dismantled, the growth rate of new vehicle sales increased at a faster rate, because Iran’s economy, particularly the oil sector will have access to world markets. However, if the negotiations fail and apply new sanctions against the country, future status of few automakers, such as Renault, who are still active in Iran will be questioned. It is predicted that after two years of stagnation, Iran’s economy will be developed in 2014 and 2015, respectively 2.8% and 2.9%. Improve the confidence of investors and consumers due to improved relations with the West and a more favourable macroeconomic management under the presidency of Hassan Rouhani leads to return the country’s economic growth. The main view is also based on this theme that the negotiations on nuclear programme will continue over the coming years, in addition, there isn’t significant progress in the near future and the main sanctions of oil and banking sector will be continued. Thus, the Iran’s economy in 2014 and 2015 will be developed less than the potential of this country (The analysis and monitoring unit of the Iran investment institutions centre market).

4. Iran’s trade

According to reports, Iran’s export vehicles fell to 94.3% during the first five months of the year compared with last year. It is believed, there are several factors that make it difficult for domestic manufacturers to rectify this situation in the short term. The most important reason is related to the decline in manufacturing activity which led to the resignation of some of the international manufacturers of domestic assembly agreements. The above-mentioned decline in production lines, is probably the most prominent driver of the decrease in production. In addition, the fact that sanctions imposed heavy impacts on imports means that more production is required to modify the domestic market. Although latest sanctions of the USA are not subjected to import completed vehicles, but automakers still delay to export to the country. However, the lack of information about the sale makes it difficult in judging about how much internal models could have filled the vacancies of automobile imports. Despite some reports about Iraq’s attempt to sanction Iranian automobiles, based on the wrong reasons, such as low-quality standards, Iraq is still the main export market for Iranian automobiles. In fact, according to the Iraqi customs office report in October 2013, Iraq’s was the biggest Iranian automobiles market in the first six months of 2013. According to this report, Iraq’s

share of Iranian-made sedans during the period mentioned is equal to 59.2%. While in the ISNA report, Azerbaijan and Egypt respectively with 13.5% and 9.2% are in the second and third place. In this period, Iran has exported equivalent of 2,218 sedans worth 16 million dollars. Although this may lead to a reduction in exports, but this reduction will not be worrying. Iran Khodro has set out to create a domestic assembly line in Iraq that the annual production capacity is 30,000 units and it would reduce the need to export to this country. However, Iraq accounted for more than 90% of last year exports that the compensation of such amount caused extensive damage. In this respect, manufacturers seek new markets to expand their export activities. Iran Khodro announced in September 2013 that probably export model of Samand, Rana and Soren will begin to Tunisia in the future. The company transported 100,000 units in 2014, and in this context used Tunisia as a base country to export to Libya and Algeria.

Iran Khodro has developed its exports to Ukraine and Kazakhstan since the beginning of 2014. According to Javad Najm al-Din, company CEO, after transport of 95% of exports to Iraq in 2013, Kazakhstan, Venezuela, Turkmenistan and Ukraine were the main export markets during the first quarter of 2014 respectively. According to Ali Elmi, deputy director of Iran Khodro in export and international affairs, is expected to improve the situation in Syria that is the main importer of Iran Khodro’s products and strengthen the company’s exports during the period mentioned. According to the statistics of Focus2Move site, in 2013, Saipa company as domestic automakers, with sales of 237,742 units is still dominated on new automobiles market of Iran. This figure is equivalent to almost 40% of the company’s market share. Saipa manufacturer pride as the most widely used automobile in Iran. French automaker Peugeot was in the second place and then, Iran Khodro, Renault and Chery were in third– to fifth– places respectively. In the first quarter of 2014, Hyundai and Kia Companies have achieved significant benefits from temporary cancellation of sanctions against Iran and reports indicate that Korean automobile imports to Iran is growing quickly .

Table 1. The analysis and monitoring unit of the Iran investment institutions centre market

Producer	Sale	Market share (percentage)
Saipa	237,724	39.5
Peugeot	181,051	30.0
Iran Khodro	102,051	17.0
Renault	45,221	7.5
Chery	33,610	3.9

5. Discussion and conclusion

5.1. The status of country’s automobile industry from the perspective of macro indicators

Iran by producing approximately one million units in 2014 allocated eighteenth status of the global auto industry that its share of total global auto production is about 1.2%. While the China ranks first with a share of more than 26% and the US, Japan, Germany, South Korea and India, respectively, with a share of about 13%, 11.9%, 6.5%, 5% and 4% are in the next rankings. In recent years, the greatest amount of vehicle production was in China with 23.7 million units and countries that have been allocated second– to fifth–place in the world respectively, US (11.6 million), Japan (9.7 million), Germany (5.9 million) and South Korea (4.5 million) and on the other hand, India (8.3 million), Brazil (14.3 million), Mexico (16.3 million) and Russia (88.1 million) are increasing in production volume.

The number of automobile industry workshops and the automotive industry’s share of total industrial workshops with ten workers and more in the industrial sector, increased from 13 units of workshop with a share of 12% in the year 2001 to 42 units of workshop with a share of 28% in the year 2011 which represents the increasing trend of the number of manufacturing units in recent years. The amount of capacity building in the automobile industry increased and in the last decade from about

431,000 units in 2001 reach to more than 2.5 million units in 2012. In the period under review, on an average between 70% to 80% of automobile industry capacity was used, but given the relationship between amount of capacity building with produce, due to the severe loss of production from 2011, only about 36% of the country's automotive capacity has become production. Increasing the quality and quantity of production is a function of the investment amount. Survey the amount of capital formation in the automotive industry indicates changing procedure with high volatility and in general shows decline, so this issue be clearly deduced that there isn't certain programme in the automotive industry investment and on the other hand, low levels of investments made during 2001–2011 in such a way that in 2006 reach 519 billion riyals that is the lowest figure, and in 2010 increased to the highest value means to 11,177 billion riyals during the period under study. In addition, the volume of capital formation in the automotive industry during the period under study mostly fluctuated around 5,000–6,000 billion riyals which displays the confusion in this section.

The amount of employment in the automotive industry and components over the years 2001–2011 increased from 36,981 persons to 70,722 persons respectively and almost reached to more than double. The automotive industry's share of total employment in industry was an average of 4.72% during the period under review. In 2010 and 2011, 5.5% and 7.5% respectively were allocated the largest share during the period under study, and this trend is approaching 6% share of employment in industry sector that this issue represents the high potential of Iran's automotive industry in job creation and also economic, social and cultural development.,

The trade balance of automotive industry shows that during the years 2002–2012, the trade balance of the country's automotive industry was mainly been around the figure five. In other words, in recent years more than five times the value of automobile exports, the country has been importing automobiles that this ratio is increasing in the years 2013 and 2014, respectively 22 and 23 times which has been unprecedented in the years studied. In other words, during the years that the automotive industry of Iran had the lowest produce and exports, on the contrary, the greatest amount of automobiles imported into the country that the continuation of this trend would be very disturbing.

5.2. Macroeconomic vision and forecasts

It is predicted that GDP growth in real terms and compared with a 2.9% decline in 2013, and during 2014–2015, respectively 2.8% and 2.9%. The return of growth trend to the desired level of improved relations with the West, originates from more favorable macroeconomic management and favourable changes annually. Although the Iran's economy will expand less than its potential, risks related to this economy have a declining trend (The analysis and monitoring unit of the Iran investment institutions centre market).

5.3. Macroeconomic

Macroeconomic vision is significantly influenced by progress in Iran nuclear talks over the coming years. On the other hand, due to the possibility of a major challenge related to the nuclear issue that can cause failure of the negotiations in 2014 or 2015, in this report is considered 30%, predictions of this report face by adversely risks. Also, on the other hand, can't ignore the issue of favourable risk because in this report, the possibility of abrupt progression in negotiations have been predicted 25% over the next 5–18 months and to the realisation of this scenario, the sanctions are reduced and growth visions will quickly develop (The analysis and monitoring unit of the Iran investment institutions centre market).

Table 2. The trends of main basic indices of Iran’s microeconomics

	2012	2013	2014	Forecast 2015	Forecast 2016
Nominal GDP (billion Riyals)	6,715,880	9,026,12	11,481,692	13,729,3	16,137,3
Nominal GDP (billions of dollars)	551	502	465	572	672
Real GDP growth (annual percentage change)	–2	–3	3	3	3
GDP per capita (dollars)	7,204	6,482	5,924	7,198	8,357
Population, (millions of people)	76	77	79	80	81

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