

Ford and gm case study

Business



Ford wants to exploit the opportunity that it has in Russia by its own way. Licensee may not follow all instruction of Ford. The last problem with the giving license is that some terms of know-how can not be defined on a page or documented. Like service industry (Hospitality industry) that how to license the subsidiary for "how to well come and how to greet" as a part of the service. (Hill, 2003, p-21 5).

Since there is a vast opportunity for Ford as a first mover advantage it want to make sure of the 100% command over its operation in Russia. This may be the reason why it started its fully owned subsidiary.

Q: 3 Why do you think GM chose to establish a Joint venture with Batavia, rather than a wholly owned subsidiary? What are the risks associated with Gem's Joint-venture strategy? GM enters into the Russian market immediately after the Ford entered. But it has decided to go with Joint venture with the Batavia of Russia. Batavia is the largest and most advanced manufacturer in Russia.

The company was established in 1970 in cooperation with FIAT. But it could not manage the new innovation of its model due to a lack of available financing and inadequate management Batavia has not munched new, up-to-date models for the last several years.

It was looking for the joint venture for foreign car maker to fulfill the demand of the local people of new model with new technology and foreign made car. Mean while the GM came to Russia as a part of the strategy of following the competitor, Ford and Batavia try to gain benefits Joint venture. The following

are the advantages of Joint Ventures: 1) In spread AT ten rolls coming Trot ten market.

2) Utilization of the market knowledge of Batavia. 3) Since the GM has local partner there is less risk in terms of political situation 4)

Both company have the advantages of resources and capabilities of each other that they already have. Example: GM has good technology, products, trademarks and sound financial condition while the Batavia has the network, distribution system. 5) GM has less initial requirements of finance to invest in Russia 6) GM can have the access of the natural resources of Russia, the labor force that already with the Batavia have and 7) GM may have benefits of the government policies in exemption of the duties for import or export.

Disadvantages of Joint Ventures: The main disadvantage for GM may be the loss of the control over its Russian venture.

1) It may end up with the conflict with the partner company Batavia in terms of marketing financial, share, dividends, supplier objectives productions objectives and R efforts and costs. The issue may arise of the profit sharing.

2) when ever Russian feels exploitation they will change the quotas and export policies 3) There is a corruption in the political system 4) Tax laws change quite often. [Http://www. Geocities.](http://www.Geocities.com/Athens/Delphi/9158/paper.HTML)

[Com/Athens/Delphi/91 58/paper. HTML](http://www.Geocities.com/Athens/Delphi/9158/paper.HTML)) So even though GM may have advantages of Joint venture it has to careful about the issues that may arise in future. The data shows that this Joint venture is doing well in Russia.

Gem's Joint venture with Topaz is producing the new Chevrolet Nava ex.

sport utility. Production started towards the end of last year and capacity is 100, 000 Novas a year, with half destined for export from next year 2004.

([http://www. Beneficiaries.](http://www.Beneficiaries.Mom/p/articles/mi_mamma/is_10_183/AI_109505536)

Mom/p/articles/mi_mamma/is_10_183/AI_109505536) Q: 4 Which theory of foreign direct investment best explains the sudden increase in Interest Dye Torrent auto companies In Russian Investment? The theory of market imperfections or internationalization theory explains the recent trend to the FED in Russia. The Market imperfections are the factors that are restrict the company from doing well or working perfectly (Hill, 2003, P-214) The Foreign auto company has interested in Russian Investment because of the impediments to exporting.

Russian government has 35% of import duty on the car and 25% duty on the parts made by the foreign car manufacture. Russian government restricts the free flow of the goods to Russia.

The huge market of the Russia attracts the foreign auto companies. The Russian companies are suffering from the poor management, old technology and managing fiance©. So the Russians are now moved towards the foreign imported car. This also creates the foreign Auto companies to compete with price in the market. There are some impedance of selling know how to the license.

The economical and political stability after the crisis of 1997 is also attracting the FED from foreign auto companies.

Q: 5 What are the general costs and benefits to Russia with the entry of Ford and General Motors? What are the costs and benefits to the United States economy and society in general? Costs and benefits that Russia has with the entry of Ford and GM: COSTS and BENEFITS: Adverse effects on Competition: The foreign company boosts the competition in the host country. It will help to the host country. But when the Ford and GM tried to acquired the local competitor.

It they do so and when the competition is abolished they can charge the price what ever they like. Adverse effect on the balance of Payments: When the FED of Ford and GM invested in Russia they have inflow of the foreign reserve. It will surplus for the country.

But when this company started its activity in full fledged then they will take the profit to their home country, which finally create the deficit to the host country. Another point for imports by the companies from their home country then the payment of it is end onto the deficit of the account. The most important is the national sovereignty and autonomy: If the Russian car industry much depends on the Ford and GM then they can have power to lobby the government which will result of policies that are favorable to the company and its parent country will become in effective. For example the OPEC country is now mainly depending on the European and US oil Exploration Company. The benefits for the Russia is the opportunity that created by the foreign company for the employee, labor in terms of creating more Jobs, giving technology and know- owe AT ten company developing ten Understructure.

If we look some projected figure from the case study then Assembly line workers at the Ford factory will earn \$220 a month which is quite high compare to \$134 per month wage in Russia, Skilled engineer may earn up to \$600 a month. GM initially invested some \$141 million in the Batavia venture. It is forecasting to create 3, 500 new Jobs for the Russians. COST AND BENEFITS FOR US: Benefits: The benefits of FED of GM and Ford to the US arise from three sources. 1) The capital account of the home country's balance of payments from the inward flow of foreign earnings.

Ford has started with 10, 000 car per year and if every thing goes in its favor it has plan to produce 1000, 000 cars per years. Ford has set the price of \$10, 900 as compared to local cars of \$5000 to \$8000 by putting it self in the premium segment. So the revenue generated by Ford will goes to the capital account of US. Same way GM has 41. 5 % ownership in its JP with Batavia. Profit earned by this company also goes to the US.

2) Employment effects: As with the balance of payments, positive employments effects arise when the foreign subsidiary creates demand for home country exports.

Thus the GM and Ford's investments in car manufacturing operations in Russia has benefited both the US balance of payments position and the employments in US because Ford and GM will imports some component parts for their Russian-based car manufacturing plant. 3) Valuable skills: The Ford and GM will learn valuable skills from its foreign exposure to the Russia. So it will make them more competitive back in their home country US. These

companies can have benefits from cheap labor and recourses available in Russia and produce less costly car and earn revenue which finally help to US.

COST: The costs of FED of GM and Ford to the US arise from two sources.

1) Balance of payments: When GM and Ford initially invest in to the Russian Market the US balance of payment has capital outflow. It will also suffer because of the GM has plan to sell the low cost car back into the US. The third way the balance of payment's current account will suffer because the GM and Ford direct investment into the Russia is the substitute for the US direct export of the car or Car parts to the Russia.