The challenges and recommendations for fiat in india marketing essay

The objective of writing this report is to describe the opportunities, challenges, solutions to the challenges and recommendations for Fiat in India. In July 2006 , a memorandum of understanding was signed between Fiat Auto and Tata Motors, an Indian based Automaker (Parekh, 2006). There have been a lot of challenges as well as opportunities in the Indian market after the memorandum was signed. This report used Porter's five forces to analyze the briefly analyze the market and opportunities including relationship established with the suppliers and dealers in the host country, rediscovering the brand awareness, benefits associated with cost competitiveness and becoming market leaders by forming a positive relation with the customer. The report also describes the challenges that Fiat face including competition from already existing firms, technological, knowledge transfer, cultural, inequality, operational and financial challenges. Solutions are also described to smooth down challenges including knowledge and technology management, improving organizational culture by implementing Hofstede's framework, gaining competitive advantage and establishing employee commitment. The assumption made in this report is cultural in which Fiat is still learning about India and Tata as a merger will lead to cultural differences competencies.

Porter Five Forces: Brief Market Analysis

Competitive rivalry with industry

Fiat focus on product differentiation for competitive advantage by specializing specifications on Automotive to meet regional demands and penetrate customer base (Min, 2006).

Alliances with other car makers, especially local Tata Motors, in India enables Fiat to cut cost: share suppliers, labor, technology and knowledge to gain consumer and industry respond.

Supplier Power

Indian supplier offer good quality components at a cheap price and focused on Automotive components. Fiat, especially in India, is able to use a concentrated and dependable supplier that meets consumer demand for easy spare part access.

Relationship with suppliers ensures an efficient and smooth business operation; they provide essential materials from components to labor (Kannan & Choon Ta, 2006).

Threat of Entrants

Barriers of Entry in a new market are a threat of entrants faced in India. Merging with a localized firm, especially one that is one of the big players in India, such as Tata Motors help smoothen out the barriers of entry and understand the market better(Vasudevan, Sanjaya, & Shinde, 2006).

Power of customers

Fiat is always questioned due to its reputation as a low cost and unreliability. Fiat has since become more customers oriented. The customer’s concern on finding spare parts were solved by finding a good quality supplier.

The consumers of India also influence the production decision for innovative new cars at that meet the demographics to encourage loyalty (Broyles, 2009).

Threat of substitute

Price competition and positioning within the industry is a threat as more competitors such as Opel and Toyota come up with their own " City Cars", with lower emission and more environmentally friendly. (Min, 2006)

Fiat is pressured to fight the industry to become the substitute of other car makers before ending up being the substitute.

Opportunity

Rediscovering Brand Awareness

The middle class in India is 170 million which is half the population of US and have a low vehicle-penetration rate. The middle class will soar by 40% in the next 15 years (Fernando, 2010). Fiat is always a choice at producing small and simple cars throughout the India's consumer generation. Hence, Fiat has the opportunity to succeed if they are able to create further brand awareness by positioning and communicating its Automotive to the market segment (Prabhakar, 2010).

Stronger Relationship with Indian suppliers and dealers

India is becoming known as a place for reliable and cheaper suppliers, either in terms of raw materials, components or labor(Parekh, 2006).. If Fiat is able to create strong relationships with the supplier from the beginning, competitive advantage in terms of speed, efficiency and economics will be created. Other than that, the relationship with dealers is also very important as they are closer to the customers. A strong and loyal relationship and communication with dealers will directly and indirectly improve customer satisfaction and experience as well as a good and efficient way to get feedback for demand(Prabhakar, 2010)..

Cost saving is a key point at an efficient production and alluring customers to the car. With strong relationship with the Indian suppliers, merging with local firms as well as creating an identity with consumers, price competitiveness can also be linked.

Further becoming Market's number one choice through understanding of consumers

Innovation must meet the market requirements and current technology as well as the consumer's current and future trend. Fiat in India is a car maker that many are familiar with for generations, the idea of city cars are brand associated with Fiat. With the ever changing demographics and exposure to international taste, India has a fast paced demand for the most current trends. So, Fiat must be able to hybrid its capabilities and the demand of the consumers(Vasudevan, Sanjaya, & Shinde, 2006). There is an opportunity to gain further consumer loyalty for not just being Italian engines but as a reliable and modern car will push Fiat to its strengths.

Challenges

Competition

The alliance between Tata Motors and Fiat Auto faced fierce competition from the already existing Automobile companies in India (Prabhakar, 2010).

They faced competition in various forms, to begin with, as mentioned by Parekh (2006) the competitors were in the verge of formulating alliances with each other for instance, in 2005 February, Mahindra and Mahindra Ltd and Renault came to an agreement to formulate a 49: 51 venture and in June 2006 Nissan and Suzuki came up with their own alliance. These alliances would cause the companies to straggle to increase their share in India's market as it is ever enlarging making it one of the main attractions to the multinational companies (Ratnam, 1998). Furthermore, the competitors were planning to launch similar small cars as Tata and Fiat offered, for instance the alliance between Mahindra and Renault was mainly formulated to manufacture a sedan car named Lagon to compete with Indigo a similar car from Tata Motors, the merger between Suzuki and Nissan was meant to launch a car named Nissan Moco and Toyota Motor Corporation and Daihatsu Motors were also in the process of planning to launch several new small car (Parekh, 2006), the market become very competitive. In addition to the challenges from the alliances, Individual companies were also manufacturing their own small car targeted for the small car market segment for example, Gm India secured their market share after a successful launch of Chevrolet Optra and the Aveo in the year 2006, Hyundai went an extra step by planning to launch Getz and Santro their well known cars in Diesel alternative to petrol (Parekh, 2006).. In addition, Parekh (2006) gave further explanations stating that the small car segment was the most promising segment comprising of more than sixty percent of the total Automobile industry in India hence the Fiat and Tata motor joint venture had a challenge to capture a larger share of the market against their competitors to secure their survival.

Technological

Tata Motors was well known in the production of diesel engines but they had limited latest technological knowhow that already existed in the market hence lagging behind, unlike Fiat Auto, its technology in the diesel Engine was globally respected this made it challenging for the alliance to be technologically competitive in the market with the other competing companies (Parekh, 2006). Tata motor was also suffering from a limited market share with approximately 5 percent of its entire sales in the petrol segment of the motor industry due to its inefficient technological expertise on the petrol engines, Tata Motors being in their home country and had limited technology and market share would adversely affect Fiat Auto as well (Parekh, 2006).

Knowledge transfer

Fiat Auto had to share its technological knowledge and materials with Tata motor, Parekh (2006) gave few instances that are evidently seen when Fiat Auto was to launch in India, a small diesel engine that Tata Motors would use in a car they anticipated to introduce into the market in 2008 as well as an advanced petrol power trains, moreover, Tata Motors was also to take advantage of Fiat Autos proficiency of manufacturing small cars gained through years of experience, Fiat also had to share its skills of designing cars with Tata. Vanish Kathuria a researcher cited by Manral (2001) conducted a research to text the spillover effect and concluded that the local Indian firms have been well known to benefit technology wise from the multinational companies, he went on and argued that this mostly occurs when the foreign companies demand more from their local counterparts. A risk also exists should Tata Motors decide to share the knowledge acquired from Fiat Auto to other of its Joint Venture.

Inequality

Unfairness can be an issue to merged companies when one company tries to over rely on the other, in addition to technological benefits Tata was getting from Fiat as mentioned above, Parekh (2006) identified that Tata Motors wanted to use Fiat Autos manufacturing plants located in argentines and Cordoba to manufacture their own cars and export them to foreign markets including Europe, in addition to using their plants, they anticipated to use Fiat Autos distribution connections as well as distributing their cars using Fiat Autos outlets, this was advantageous to Tata since the European market is one of the largest market globally for small cars (May, 2004). Tata Motors had absolutely no market share in the Latin America where as Fiat Auto had a reasonable share of the market especially in Argentine and Brazil, Tata also wanted to venture into these markets (Parekh, 2006). Besides these issues, Tata Motors ventured in another joint venture with Marcopolo a manufacturing company originating from Brazil same year they signed a memorandum of understanding with Fiat Auto, this would diverge the attention and cooperation of Tata's contributions towards the Tata Fiats venture (Parekh, 2006).

Operational Challenges

In mid 2005, Fiat Auto was facing tough conditions in terms of production since one of most operational manufacturing plant in Kurla was extremely destroyed by floods, this site manufactured approximately sixty thousand units each year, this shows the extreme of the damage suffered, in mid 2006 the company decided to close it and relocate (Parekh, 2006), furthermore, Parekh (2006) explained that Fiat customers reported that the spare parts were not readily accessible in stores and the customer service they received was no good either, this destroyed the reputation of the company hence faced with the challenge to recover back the customers trust in their products.

Financial Challenges

Fiat Autos has been facing financial challenges in various invested countries including Italy and Europe going way back in 2000 and 2002 before the joint venture with Tata, in 2002 they suffered a double blow when the Fiat group had a total loss of US $33. 4 billion and their Indian market share fell abruptly (Parekh, 2006). Looking at their most recent report after four years of merger they accounted a loss of Rs 970. 7 Crore which is a 39 percent rise from the preceding year (Baggonkar, 2010).

Cultural Challenges

Another potential challenge that was more likely to be faced by the Joint venture was cultural differences between the Stakeholder from both companies, this two companies had very different cultures as they were from dissimilar geographic location and ethnic backgrounds; Tata Motors being from India and Fiat originated from Italy, but Prabhakar (2010) argued that apart from the communication barriers, it is less difficult for Italians and Indians to intermingle with each other since Indians have a well known history of relocating abroad which helps them to easily adapt and deal with other cultures.

Solution

Knowledge and technological management

Knowledge transfer, from one party to the other, should be controlled through knowledge management. Knowledge includes intangible capital such as patents and intellectual resource such as client and market knowledge. One of the knowledge shared between Fiat and Tata include that of manufacture processes and research and development skills. Both partners tap innovative knowledge whilst profiting from existing knowledge by both parties. The knowledge management needs to incorporate the knowledge life cycle adopted from (Phatak et al., 2005) as a framework for changing the organizational behaviors of employees.

First, Human resource department has to create an organizational environment which encourages organizational learning, ingenuity and innovativeness as well as retaining the knowledge solely for the organization. Following that, there must a focus on retaining knowledge within the companies involved. In the case of the alliance, Fiat and Tata is inclusive of sharing information. Diffusion, then, allows Fiat to spread the knowledge across borders of the organization which allows consumers to know the capabilities of the firm to gain trust and avoid competition. Lastly, as knowledge reached its laggard stage, it can serve as an opportunity for Fiat to diverge into other uses of technology and knowledge. This strategy is effective if the strong bonds between managers and factory workers is maintained. Hence, communication in organizational structure is important to ensure physical closeness and the technical competence of the workforce in india , creating greater learning opportunities.

According to Beamish and Lupton (2009) the down side to this solution is while JVs may allow partners access to each other's knowledge, they should not necessarily attempt to acquire it outright. They should continuously review their contract after every 5 years to ensure they have control over the knowledge and also to prevent Tata from giving their knowledge to their other partners.

Culture

According to Hofstede, India scored low on individualism , high on power distance, high on masculinity , and long term orientation. Italy, on the other hand, scored high on individualism and low on the other elements (Hofstede-itim, 2010). This cultural difference can cause problems in a joint ventures as it affects organizational culture in both negative and positive way . As part of the solution Fiat, an Italian company, can strategize by adopting Hofstede's frame work and based on the score , make sure they minimize the forces and outcome of cultural diversity on the organization. If possible, select a mono-cultural workforce or supervise differences: coach employees to be acquainted with cultural diversity and use them to create returns for the organization.

Since India is a collective environment, Hofstede proposed a general framework for building the competences required for operating in a cross-cultural basis which can be integrated by Fiat. Workshops and training for both managers and employees should be held to build understanding of own culture, other cultures in order to communicate problems and develop management leadership commitment. By adopting a common organizational culture which will have an impact on organizational behavior in the sense that management, Fiat can tap on the strength of Indian working culture which will increase workforce commitment and have a great impact on decision making (Higgs, 2010).

Competitiveness

Since there is an increase in competition both locally and internationally . Fiat needs to use a matrix framework by combining the distribution channel advantage Tata has with multiple resources from their own financial backing and employee competence, which will make them stay ahead of their competitors in the Indian market , through product dependability Service system and distribution channel. Fiat is not the only company in a joint venture with an Indian company due to technological competence, therefore they have to have added value to their product by providing :

Intangible assets: Fiat needs to strengthen its brand loyalty since its been diffused with Tata Motors , by providing an exclusive customer experience.

Reinforcing brand loyalty through reputation and brand image to help sustain sales without having to decrease price to capture market shares.

Strengthen the relationship between supplier and Fiat to provide the best service and components to the market.

As cost is a main factor at Fiat combined with Fiat's reputable technological advancement for, Fiat can also increase in innovation through diversity of workforce and through more third party relationship. Fiat can create an offering involving better Automotive specifications to meet market demand and an overall purchase experience. According to Patibandla et al (2009), Tata Motors has established IT systems to network its countrywide service network. Fiat can use this to their advantage as they are able to not only communicate with the consumers but also enhance the distribution channels.

Competitive advantage can also be achieved through employment satisfaction and loyalty. As job insecurities and will lead to job dissatisfaction amongst workforces, Fiat should focus on non financial reward systems like motivation and holiday breaks as well as create flexibility with in the work force to increase employee involvement and job satisfaction.

Conclusion

The Automotive market in India is rapidly growing creating many opportunities for foreign as well as local investors, it is also famously known for its cheap materials as well as labor that Fiat could take advantage of by trying to create a good relation with the suppliers to ensure reliability, efficiency and delivery speed can be acquired. Furthermore, creating a positive image in the market can benefit product differentiation and price competitiveness. Through knowledge management, understanding the Indian working and consumer culture as well as improving competitiveness through management of employees and suppliers, there is a high chance for Fiat to be more organized in its management in India and will be able to be a strong player in the Automotive industry in India. Therefore, if Fiat can continuously improve its core competencies and strengthening its brand loyalty and supplier relationship, there is a strong chance for Fiat to improve their sales and market share in India.

Recommendation

Fiat should increase competitiveness by continuing to guard the reputation as a well-known brand in India. Competing on price is a challenge in India because market share is very competitive and saturated, hence it is more advisable to be more focused on product differentiation such as a customer service in India and expanding more into the Indian market to enable Fiat to be more customer oriented in order to continuously be one step forward the market trend. Fiat should also avoid focusing too much on Tata’s reputation and instead, focus on their own brand and reputation in India especially as a company for affordable cars. When launching for new brands, it is more important for Fiat to be brand associated in a positive way as an innovative simple “ city cars” that meets different market segments.