Nissan's global strategy

Nissan’s global strategy with focus towards its entry and expansion to India

Introduction

Globalisation in terms of strategy actually makes us aware of to two simultaneous changes, the globalisation of industries and the globalisation of markets. The globalisation of industries refers to the increased integration of business across national borders due to rapid advancement in communications, transportations and the absence of wide spread high intensity world conflict leading to increased international trade flows and foreign direct investment. The technological advances combined with successful implementation of free trade policies by many countries has resulted in companies being able to expand their operations internationally as well as compete itself in multiple countries. The globalisation of markets refers to the concept that demand preferences are becoming more homogenous across national borders which means people are increasingly looking for same product around the world. Both these aspects play predominant importance in a firm’s global strategy towards its expansion internationally. (Scott Gallagher, 2005)

Nissan’s Global Strategy

Nissan Motors global strategy involves its aim to become an industry leader in zero-emission vehicles and to cultivate developing markets with low-cost global cars. As part of zero-emission environmental friendly vehicles, it would be beginning with the launching of the new electric vehicles (EVs) which would be powered by advanced lithium-ion batteries to be jointly developed with electronic maker NEC Corp. The EV to be introduced will have a unique body style on an all-new vehicle platform which would be compact for the

city, yet big enough to carry five adults. Importantly, it will be thoroughly usable with brisk performance and a range of 160kms. It will have the performance of a typical 1. 6-litre petrol-engine car while recharging from a high voltage source will restore 80 per cent of the battery capacity in around 30 minutes. The company with its alliance partner Renault, which holds 44% stake in it, has been developing partnerships with various governments and specialist companies to build a sustainable mobility network and create public awareness towards EVs as its preparing for marketing them on a mass scale. Various understanding has been signed with electricity companies, charging station suppliers and governments to promote the concept of zero emission mobility and provide infrastructure support, craft legislation or offer incentives such as tax relief, parking or toll rebates for EV buyers (Source: The Japan Times online, May 14, 2008). Cultivating developing markets with low-cost global cars, Nissan is globally launching its new small car on a fresh global platform. The common global platform strategy is part of Nissan’s endeavour to produce a host of cars, be it hatchbacks or sedans, across five countries in which thus far India, China and Thailand have been identified as key manufacturing locations. The new small car, touted as a replacement for the Micra, will first go into production in Thailand with shipping out key components from India and then later on the production would be from India.

Nissan’s Entry & Expansion to India

As part of its entry and expansion to India, the company is tying up with its alliance partner Renault and stetted up a manufacturing facility in Chennai, India with an investment of INR 4500 crores, which will have a capacity of producing four lakh units. It also has alliance with Ashok Leyland to build

Light Commercial Vehicles, with Bajaj to develop ultra-low-cost cars, with Hover for marketing, sales and dealer development support and with Maruti-Suzuki to export A-segment vehicles to Europe (Source: The Hindu Business Line, Sep 30, 2009). Apart from setting up a manufacturing facility, Nissan Motors India Private Limited is also developing a high-tech research and development facility in Chennai mainly used for developing Robotic painting that would help in boosting up the quality, enhance flexibility, increase saving and improve safety for its international business. This R & D facility would allow the company to claim the weighted tax deduction of up to 150% for in-house research and R & D activities entitled by the government of India, making its product more likely cheaper (Source: Rediff India Abroad, Apr 10, 2009). The company believes that the scope of growth in India is immense since the penetration of vehicles into the markets is less than 50 per 1000 nationals compared to US of 800, Germany, Japan, UK and France of 600 vehicles per 1, 000 people. The total industry volume globally increased 6. 1 per cent even though Western Europe was flat, the US market was down 3. 5 per cent and Japan was down 5. 3 per cent in 2008 (Source: Business Standard, May 13, 2008).

As part of its marketing strategy, the company, which already has two models ‘ Teana’ and ‘ X-Trail’ for the Indian market from 2004 onwards, is rolling out new sports car ‘ Z370′ in 2010 and fully redesigned luxury sedan ‘ Teana’ and ‘ X-Trail’. The ‘ Teana’ which was pitted against the Volkswagen Passat and the BMW 3 Series, won the Indian Executive Car of the Year 2008 for its excellence in driving comfort, performance, design and style, purpose with relevance and value for money. All these three vehicles is brought as

Completely Built Units from Japan paying 109 percent duty showing that the company is making all possible efforts to expand its presence in India. Apart from that the company, will increase its product range to nine models by 2012, five of which will be manufactured in the Chennai plant. The first among these, to be launched in mid 2010, will be a hatchback based on the platform of Nissan Micra, expected to be priced close to INR 5 lakhs in the Indian market (Source: The Economic Times, Sep 27, 2009). The company will begin exporting to Europe by second half of 2010, approximately 110, 000 units (expected to grow to 180, 000 units in future), manufactured in India per year, for which it has a contract manufacturing alliance with Maruti Suzuki. For exporting from Chennai, India, it has signed a Memorandum of Understanding with Ennore Port Ltd (EPL), making it the first automaker to utilize this eastern gateway port of India as an export base. EPL will complete development of a berth with space of 140, 000m2 for vehicles by the end of June 2010 and would provide dedicated jetty for exports of Nissan cars to Europe (Source: Drive Inside. com, Oct 18, 2008). There is no information on how Nissan is going to price its car in Europe, exported from India, but the company will have to definitely address the import-export tariff rates as the EU-India Free Trade Agreement is still under negotiation and is most likely to be signed at the end of 2010. Regarding the exchange rate issues, it will depend upon which currency the company is going to invoice on. If it’s in US Dollars, as done for most of the trading between EU and India, then the company would have to look into the exchange rates between Indian Rupee & Dollar and Dollar & Euro. If it’s going for Euro trade, then it would have to address the exchange rates between Euro and Indian Rupee. In both these cases, the company will have to come up with fixed exchange values for

fixing price and hope that it does not vary drastically on the negative side leading to reduced profit margins. The company wouldn’t have problem converting the profit to Japanese Yen as the Indian currency is fully convertible in the current account.

Business in India

Doing business in India is all about knowing the system, reading the signals (political and economic) as well as understanding the mood of the market before making investment decisions. The country is politically stable having a parliamentary system of democracy, economically growing rapidly at around 8% in spite of economic downturn, culturally diversified and technologically advanced. It has an efficiently structured business enterprise system with regulatory laws in place which are updated regularly, in keeping with the needs of the industrial and management systems. It is the home to a huge middle class population whose purchasing power parity is rapidly growing which itself forms to one of the biggest consumer bases in the world, besides the growth potential, relatively low risk on investment, easy availability of highly skilled manpower, established contract law, developed legal system, modernizing stock markets, national banking system and democratic institutions constitutes to some of its advantages. India’s return on investment is one of the highest in the world at 19% compared to China’s at 14% owing to efficient use of capital, the reason for it is the cost of doing business in India is lower than most countries of the world because of the availability of inexpensive labour and advanced telecommunications (Source: Doing Business in India 2009, WB & IFC).

The business culture of India is a reflection of the various norms and standards followed by its people. It is so diversified that it changes between every province affecting the way business is done. A sound knowledge of India’s cultural practices and business etiquettes is necessary for any trade or business venture within the country. A proper understanding of culture and business etiquette would not only demonstrate a respect for India but will also create a feel good factor amongst the prospective clients. Culturally and as a mark of politeness, Indians have difficulty in saying no, this could be a stumbling block in negotiations and in closing contracts. The notion of time, time management, punctuality is still an anathema in India. It is more to do with the mindset and ingrained in the Indian culture. It would not be surprising if meetings are postponed, re scheduled, cancelled or organized at a very short notice. Bureaucratic hurdles and a laidback approach to work in the government circles results in delay in processing and overload of paperwork, hence immense patience is necessary for any business transaction. Also due to the lack of infrastructure and inadequate supply chain management, doing business need to be carefully organised and should be ready to overcome such hurdles. The companies follow the hierarchical system and decision making is usually from the top to bottom (Sandy Naidu, 2008).

All companies doing business in India must comply with the regulatory laws under the Companies Act, 1956. It is mandatory for every company in India to register its Articles and Memorandum of Association with the Registrar of Companies (ROC) and should accompany Declaration of Compliance which must be duly stamped and signed by an advocate of the High Court or

Supreme Court or chartered accountant in whole time practice, Notice of the situation of the registered company, Particulars of Directors and the ROC's letter indicating the approval of the nomenclature of the company in original.

Automotive in India

The automobile industry in India is the ninth largest in the world with an annual production of over 2 million units. It emerged as Asia's fourth largest exporter of automobiles, behind Japan, South Korea and Thailand. Following economic liberalization in India in 1991 which included opening for international trade and investment, deregulation, initiation of privatization, tax reforms and inflation-controlling measures, the Indian automotive industry has demonstrated sustained growth as a result of increased competitiveness and relaxed restrictions. The industry clearly stands out as a significant contributor to the economic growth as it contributes to almost 4% to the GDP, accounting for about 5% of the total industrial output (KPMG's India Automotive Study, 2007).

The Indian automobile industry has seen rapid technological change over the last decade in terms of both product characteristics as well as manufacturing processes. At the same time, technological changes and the deepening of technological capabilities have been confined not only to the car manufacturers but also to the auto components industry. The industry has witnessed an unprecedented boom in recent years, owing to the improvement in living standards of the middle class and a significant increase in their disposable incomes added up with easy availability of car loans, affordable rates of interest, smooth repayment facilities and the deductions offered by the retailers (KPMG's India Automotive Study, 2007).

Keeping that in mind, most of the major global car manufacturers have established a presence, either through their subsidiaries or through Joint Ventures. These manufacturers have access to the latest technology in product, manufacturing process terms and range of products using which trying to make inroads into the Indian market. This has helped transform the technological landscape of the Indian car market by segmenting itself with all varieties of car models like the small cars, mid-size cars, luxury cars, super luxury cars and sports utility vehicles. The constant changes in the existing car models with regard to design, innovation, technology and colours have led to a fiercely competitive market. In spite of all these, the small cars still hold the major market share in terms of sales, making most of the manufacturers to develop cost effective technology to compete in that segment, since the consumers are extremely cost-conscious and have greater awareness towards the latest technologies.

Seeing the rapid growth of vehicles in the country, government of India introduced range of policies to tackle vehicular pollution, as a major step towards this, India-2000 norms were introduced, which is Euro-I equivalent. Subsequently Bharat Stage-II (Euro-II equivalent) norms were put into place for passenger cars and multi-utility vehicles and now BS-III & BS-IV norms are being adopted in highly polluted cities (Chikkatur, Ananth & Sagar, 2007) . At the same time, government has also mandated a reduction of a number of critical pollutants from automobile fuels. Meeting these standards requires the implementation of some combination of technologies such as fuel injection, multi-valve engines, catalytic converters, fixed exhaust gas recirculation and need substantial change in engine design (A. D. Sagar & P.

Chandra, 2006). All these factors like intense competition, customers' price sensitivity, increasingly sophisticated demands and progressively tighter emission standards have acted in concert to place a tremendous pressure on the manufacturers to reduce costs as well as offer an improved and wider range of technological features to their Indian and global customers. This, in turn, has resulted in a series of changes in the technological landscape of the Indian automobile industry.

Challenges for Indian Automotive Industry

Among the many issues facing the Indian automotive industry, the biggest by far is the poor road infrastructure. India's road network, comprising of a modest national highway system is woefully inadequate and shabby and can barely keep pace with the auto industry's rapid growth. Most roads are single-lane roads crowded with two-wheelers, bullock carts, pedestrian humans and even cows. Traffic laws are not well enforced leading to one of the highest per-capita accident rates in the world. Secondly, attracting and nurturing talented manpower not only for the creation of better and reliable products but also for servicing and maintenance throughout the life cycle of the product. Thirdly, the massive increase in the cost of input materials like steel which has increased by almost 40%, copper by 45% and natural rubber by 40% and also the significant tariffs imposed on import products and components combined with the inconsistency of currency exchange rates make localization compulsory for companies entering the Indian market. Some of the other issues are like inadequate testing facilities and inspection, maintenance and certification system. Presently the country has testing facilities at the Automotive Research Association of India and the Vehicle

Research and Development Establishment, but the need for additional and more extensive test facilities has become clearer in the past few years. The country has Inspection and Maintenance policy but it is widely regarded as having only limited effectiveness and an upgraded inspection, maintenance and certification system with better enforcement is urgently needed (Automotive Mission Plan 2006- 2016, Dec 2006).

Challenges for Nissan in India

Other than the challenges discussed above, that is existing in the automobile sector in India, Nissan will have to overcome some of its own operational challenges like teaching the mindset of ‘ Kaizen’ to its workers and local suppliers and to constantly and consistently raise their quality standards. Kaizen simply means continuous or constant improvement. In Japanese Kai means “ to take apart” and zen means “ to make good.” Together these two words mean to take something apart in order to make it better. Kaizen is based on the fundamentals of scientific analysis in which you “ take apart” the elements of a process or system to understand how it works, and then discover how to influence or improve it. Continuous improvement is the small, gradual, incremental changes applied over a long period of time that add up to a major impact on business and quality results, the realisation of how important a smallest idea is in attaining greatest results. As part of that, under the guidance of team of engineers from Nissan and Honda, Caparo India, the Indian unit of a British auto parts maker that manufacturers steel body panels and other metal parts, have built up a new assembly lines using the Japanese and Taiwanese factory equipment and have effectively adopted Kaizen management (Source: The New York Times, Jun 26, 2008).

The other threat the company has is, entering a market segment that is highly competitive, dominated by old players like Maruti-Suzuki, Hyundai Motors and Tata Motors, which together hold majority of the market share for so many years building the confidence of the customers, making it a late entry. The first car to be revealed by Nissan from the platform of Nissan Micra is going to compete with established and highly selling brands like ‘ Swift’ of Maruti-Suzuki, ‘ Getz’ of Hyundai Motors and ‘ Indigo’ of Tata Motors, two of this brand are also exported to Europe.

Conclusion

But in spite of all these challenge and threat factors, the company positions itself well and capitalise on its strengths like major global presence making it a reliable and approved international brand, commendable presence in the Europe market, good tie-ups with local Indian manufacturers like Bajaj, Mahindra and Ashok Leyland enabling them the ease of penetration by understanding the needs of customers and customising it accordingly. More than that, since the Indian car industry is expected to grow from 2 Million to 8 Million units by 2020, gives considerable opportunity to all players and Nissan could be one of the main gainers keeping in mind its international reputation and standards.

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