

# Gm and avtovaz of russia



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In June of 2001 General Motors and AvtoVAZ were sitting down to finally negotiate a deal that they had originally made in 1999. The joint venture was to see the two companies jointly build and sell Chevrolets in the Russian market. The Russian market was expected to boom and account for a significant share of global growth over the next decade. This was also a step forward to help revive the economy in postcommunist Russia. GM founded in 1908, was the largest automaker in the world.

GM had managed operations in over 50 countries and sold over \$160 billion in sales with \$4. 4 in profits alone in the year 2000. GM did have problems of its as their market share had diminished to a mere 13. 6% of the global market share with Ford nipping at their heels with 11. 9% and Volkswagen with 11. 5% market shares respectively. Russia at the time was considered an unclaimed territory that all automakers had their eyes on and wanted to enter.

AvtoVaz on the other hand was Russia's number one auto manufacturer trying to benefit from the expertise and capital that comes for the Western automotive companies. AvtoVaz had a strong need and desire to acquire Western-manufacturing practices, so they could finally be able to export automobiles from Russia and gain the reputation of other international automobile manufacturers. The European Bank of Reconstruction and Development (EBRD), viewed the \$332 million dollar project as a key to revitalize the ailing automotive sector of Russia.

### Key Issues

\* Hopes of Revival \* Disputes \* Fall in Profits

## Hopes of Revival

Richard Wallis, the senior advisor of EBRD had high hopes and expectations as he thought the joint venture would lead to a major revival of the auto industry in Russia. " It was the first auto major setting up production in Russia after the fall of communism and, of course, the hopes were for GM's suppliers to follow in GM's footsteps. These goals have not all been met. But there have definitely been major investments in related industries -- for instance, in tires and particularly in windscreen glass," Wallis says. " And there have been others as well, which are the result of the arrival of GM, which was followed by other automakers, and by the creation of this joint venture." The success that streamed from the joint venture saw General Motors take the threshold in entering the Russian market and allowed Chevrolet to become the second highest selling foreign car in Russia. Sales increased over 40 percent for the first five months of 2006.

## Disputes

In 2006, GM and AvtoVAZ saw an 11-day stand still as AvtoVAZ had a dispute about the price of engines and other parts. The dispute arose, because a federal agency of Russia had proposed investing money from the Russian oil-windfall fund into a new automotive work that would be built by AvtoVAZ and other domestic manufacturers in Russia. The proposed deal would have opened a new factory that would build cars, suvs, and vans producing nearly half a million automobiles a year. This of course posed as and inconvenience to GM, as it would make them less then essential in the Russian market.

## Fall in Profits

Between the years 2004 and 2005 the profits of AvtoVAZ slumped by 75 percent and GM reported a global loss of \$8.6 billion in 2005. GM considered the joint venture to be somewhat successful as they were able to gain entry into Russia. AvtoVAZ saw the joint venture as being less successful due to expectations of 75,000 automobiles not being produced, that is why they were looking to cut ties with GM and continue manufacturing within their own country.

1. What does General Motors hope to gain by doing business with AvtoVAZ (What are the potential opportunities?) GM entered Russia after signing a joint venture with AvtoVAZ, and planned to continue to build on the existing Russian vehicles. The main reason for entering Russia was the high potential for growth. With the market share of GM declining they acted to move into the unclaimed and untouched market of Russia. Doing business with AvtoVAZ would allow GM to produce a high volume of automobiles for a much cheaper cost.

2. What institutional or industrial factors continue to make the Russian automobile market so difficult to compete in? Legal issues and the government were the two factors that made it hard for a company to invest interest into the Russian auto industry market. In July of 2000 the Russian Tax Police accused AvtoVAZ of tax fraud. The accusations did not look good for the largest automobile manufacturer in Russia. They were accused of falsifying and under reporting vehicle identification numbers. The legal troubles and the way the government tried to intervene did not promote a positive image for AvtoVAZ.

3. What strengths does AutoVAZ bring to the joint venture and what does GM bring? Are they a good fit? Why or why not? AvtoVAZ had to main strengths. The first strength being the Niva SUV and the other strength being that they were already the largest automobile manufacturer in Russia. General Motor's strengths were that of the companies' success and willingness to enter a Russia market that could either be a big success or complete failure. They seemed to be a good fit as AvtoVAZ was going to be able to produce more cars with the help of General Motors and would be able to finally establish as an international manufacturer.

4. As a potential partner, what challenges does AutoVAZ present to General Motors and how has GM managed to mitigate some of these risks? Theft and the recent economic struggle are two challenges that AvtoVAZ present to General Motors. Mobsters would break into the factory and take cars directly from the production lines, holding employees at gunpoint. GM managed to mitigate crime by providing higher levels of security to ensure that the factory and all of the automobiles and supplies were protected. They did acknowledge the economy by initially throwing out a proposal of \$500 million joint venture that would have seen them producing the Opel Astra. There was no way for General Motors to tackle the economy, all they could do was produce automobiles and sell them for cheaper than that of their competitors.