Joint venture between mahindra and renault marketing essay

1. Executive summary

This report highlights the key issues that can be faced by DBD while expanding the market overseas and probable guidance to achieve the best possible solutions. The patented technologies of DBD for packaging and quality improvement could be utilized in the market which lacks innovation and degree of quality. The analysis of two different kinds of joint ventures on the automobile industry reveals that there are differences in the vision, commitment and involves various types of risk. These differences can be tackled by identifying proper mode of entry, understanding the business culture properly, sharing unique skills of each other as a partner. Considering small number of employees, DBD can face succession issue which can be solved by replacement planning and creating pool of back-up resources. Different factors that can affect DBD in overseas market are customers, competitors and political issues. The exit strategy must be planned before entering the global scene. Marketing cost can be decreased by using the brand value and dealers of other partner.

2. Introduction

DBD as a dairy industry has achieved tremendous growth in past few years and has bright chances to establish itself in overseas market. DBD is fully equipped dairy industry with latest technologies & machinery which mainly concentrates on high quality dairy products. The patented machinery established by DBD which measures moisture, acidity, protein and salt in cheese as well as the unique packaging system which uses modified atmospheric packaging can be utilised worldwide for dairy products.

This report mainly examines the scope of DBD in international market by forming strategic alliance with global retailers, focussing on specific Asian market such as India or China. It evaluates the study of joint ventures, capital investment and partnership as an option and the impact of the same that might be considered by DBD. Based on the study of dairy consumption patterns in China and India it has been predicted that the growth of cheese production will raise to 40% by 2011. (India Reports, 2010)

Indian dairy industry is the world’s largest dairy industry with the production output of 110 million tonnes in 2008-09. The growth rate of India in this sector is around 5. 4% as compared to 1. 7% against the rest of the world (Times of India, 2009). Various factors like increasing GDP, growing income of rural households through various programmes and the farm debt waiver are influencing the demand for milk both in the rural and urban areas (Indian Industry tracker, 2010). Consumption of processed and packaged dairy products is increasing in urban areas (FAO Corporate Document Repository, 2010) which suggest that the cheese production with high quality packaging from DBD has huge demand in Indian market. DBD uses very unique distribution system known as cold chain distribution which preserves the product during the transportation which can be utilized in new market as the conditions are hot and humid in India.

3. Case Studies

This section focuses on joint venture issues which are faced by other industrial companies while investing in Indian market.

3. 1 Joint venture between Mahindra & Mahindra and Renault.

Introduction

Mahindra & Mahindra is an automobile industry in India. In 2005 Mahindra & Mahindra had a joint venture agreement with Renault which is a French car manufacturing company to produce and commercialize Logan. The joint venture is a 51: 49 partnership between Mahindra & Mahindra and Renault. The Logan plant at Nasik has a capacity to produce 50, 000 units per year (Mahindra, 2010). The main aim of this joint venture between these two companies is to produce no-frills Logan car with class-defying features at an aggressive price & launch them exclusively for Indian market (BBC news, 2006) with the advantage of using dealers of Mahindra in order to reduce the time required to increase the market shares (Economic Times, 2007). This suggests that there was a technology requirement in Indian automobile market which demanded no-frills spacious cars with middle class customers as their target. The Renault chief execute Carlos Ghosn wanted to increase the global car sales by 800, 000 by year 2009 & he believed that this figure could be achieved by investing in Indian market as he spotted significant opportunities to gain massive profit in Indian market. The biggest challenge for this joint venture was to design a car model that suits Indian driving conditions which includes contemporary styling and design. Logan is supposed to be the unique product in its segment with above features along with the room for the middle passenger in the rear seat (Mahindra Logan, 2010).

Reasons for failure

Despite the positive attitude shown by this venture it was not a successful attempt to grab the vision sited by the Renaults CEO Ghosn. The main reason for its failure are the poor marketing strategies used by Logan such as pricing margin and poor localisation. The expected sales of the car after its launched were 30, 000 units per year or 2, 500 a month. But instead the company managed to sell not more than 500 units per month. This fact suggests that this joint venture is a complete failure achieving only 20% of its forecasted target. The result of this failure is the expected losses of Rs 490 crore in the year 2009 on sales of Rs 740 crore. One of the major reasons for the failure of this joint venture is the price margin issue. The brand tried to establish itself as a " low-price tag" car but failed to do so as it faced tremendous competition from its competitors like Maruti Suzuki & Tata motors who had already successfully established themselves with that tag. There were other factors contributing to the failure, such as, the company imported the engines from France which added to the production cost of the unit. They failed to understand the image of the brand and the car ended as tourist vehicle in Metro cities rather than complete family car (MSN news, 2009).

During the tenure of Joint venture between Mahindra and Renault, Renault had talks with Bajaj automobiles for another joint venture in India (Economic Times, 2008). So, it was not in the good spirit of Renault to have a Joint venture with another automobile company in India which might have upset the senior management of Mahindra and resulted in poor sales of Logan.

[SD]

Table 3. 1. 1 shows key findings of above joint venture.

Parameters

Positive

Negative

Outcome

Price Margin

Very Narrow to attract customers.

Less profit as the cost of production was high.

Loss

Design / Looks

N/A

Failed to attract potential customer

Substantial drop in the sales.

Vision

Opportunity and growth in Indian market.

Too much expectation without understanding the market thoroughly.

Failure of the joint venture.

Market Analysis

Design the car that suits Indian middle class customer.

Failed to study the competitors and their strategies.

Affected the brand image & profit margins.

Table 3. 1. 1: Key findings from joint venture between Mahindra and Renault.

[SD]

3. 2 Case Study: Joint Venture of Maruti and SUZUKI

Maruti Suzuki is India’s number one leading automobile manufacturer providing cars in various segments. It has manufacturing facilities located at Gurgaon and Manesar in India and the combined capacity to produce cars at these facilities is above 1. 2 million passenger car units (Maruti Suzuki, 2010). Maruti technical services Pvt. limited was established in 1970 and in 1981 Indian government advised its technical team to look for International joint ventures and company was renamed to Maruti Udyog Limited. Companies like Toyota, Nissan and Suzuki Motors participated in this joint venture and Suzuki Motors was selected for the same (The Hindu, 2003).

Suzuki motors initially acquired 26% of equity in the company sharing all the resources with Maruti Udyog. Success of this joint venture made Suzuki to increase its equity form 26 % to 50%. However in late 1990’s the management control was in the hands of government for a while. There was a conflict between the government and Suzuki motors which had a huge impact on the employees. This led to a major strike by the employees against the organization to improve pension and incentive schemes. This eventually forced the government to sell part of its stake to Maruti Suzuki in public offering which was again opposed by the employees. During this period Suzuki motors gained 54 % of the equity making Maruti Suzuki a non government organization (Rediff News, 1997). These were some of the management issues faced by Maruti Suzuki. Additionally, the Gear boxes for various models of Suzuki are still manufactured in Japan and assembled in Gurgaon India. In this period the Indian management team wanted to shift the production of the gear box in India to reduce the operations cost involved, however the Japanese government was reluctant to do so (Business Line, 2002). Maruti Suzuki came across various business challenges such as to ensure customer satisfaction, manufacturing more cars at lower prices and in less time and increase share holder value. Despite the above problems faced by Maruti after the joint venture, it showed a tremendous growth in its production and sales which can be visualized by the facts mentioned below.

Maruti has a market share of 53. 3% in the Indian automobile market (Maruti Suzuki, 2010) which is much higher as compared to competitors like Tata, Mahindra, Hyundai and general motors. Maruti Suzuki has reported increase in profit since 2000; also the sales have been increasing tremendously (Maruti Suzuki, 2010). There has been continuous increase in turnover and it has reached a mark of Rupees 32, 174. 10 crores (Economic Times, 2010). As per the survey Maruti Suzuki ranks highest in customer service along with dealer service in India for 11 consecutive years. Hence Maruti Suzuki was able to increase customer satisfaction and it retained its customers and was able to capture most of the Indian automobile market (JD Power, 2010). The main reason for Maruti Suzuki's growth was the innovative products and services that suited the large and diverse demography. [CN]

Table 3. 2. 1, shows key findings of above joint venture:

Parameters

Positive

Negative

Outcome

Price Margin

Provide wide range of cars at low price.

High end models are costly.

Increase in number of sales.

Design / Looks

Fuel efficient cars.

Few models failed to attract customers.

Successfully captured Indian automobile market.

Vision

Innovative products with fuel efficiency and services providing customer satisfaction.

N/A

Ranked highest in customer service with dealer service in India for 11 consecutive years.

Market Analysis

Wide variety of cars for diverse group.

Large number of competitors.

Improve brand image and profit margin.

Table 3. 2. 1: Key findings from joint venture between Maruti and Suzuki.

[CN]

4. 0 Options Available

In order to grow any kind of business, whether it is in the overseas market or in local market, the company need to increase its sales and at the same time must concentrate on low cost of production. In order to do so, DBD has three options to grow their business overseas which are Joint venture, Partnership and Capital investments.

4. 1 Capital investment as an option?

As DBD is SME with its annual turnover of around 1 million GBP which is lower as compared to the turnover of US $1700 million for Amul (Amul, 2010) or Motherdairy with turnover Rs 2700 crores (Mother Dairy, 2009). If DBD plans to invest in Indian dairy market giants such as Amul or Motherdairy a huge capital investment will be required. This will have a severe impact on the sales and production of DBD in UK operations. [SD]

4. 2 Joint venture as an Option?

Indian Dairy industry lacks innovation and advanced technology (Business maps of India, 2010) and this gap can be overcome by transferring the patented technologies available with DBD as discussed in section 2. The dairy giants such as Amul & Mother Dairy have great brand image in India and this can be beneficial for DBD to increase its product sales in Indian market. [SD]

Most of the market is captured by these brands and hence marketing cost will be less (referring the turnover from section 4. 1). This will ensure that DBD requires less capital investment. As stated in section 2, one of the key strength of DBD is in its packaging which can be used by these brands for all dairy products manufactured by such brands. This will provide economies of scope to DBD. [CN]

4. 3 Partnership as an Option?

As discuss in section 2, DBD has unique machinery which can be used to improve the shelf life of dairy products and cold chain distribution system helpful while transportation of dairy products. DBD can share these services with brands discussed above and in return can improve its overseas sales by using the brand value of Amul / Mother Dairy. However, DBD should note that profit sharing would be uneven given the size of the two firms. [CN]

5. Impact on DBD

Considering DBD is a SME with employees not more than 20, there will be a certain impact on its operations & efficiency when expanding market overseas which are discussed below:

5. 1 Change Management issue:

The vision of Indian dairy industry for e. g. Amul, have a mission statement which is more people oriented which can be visualised by the " Amul pattern" model formed for the rural development (Amul, 2005). While, on the other hand DBD is much more technological oriented company. Therefore, there are chances that visions of the companies can clash which can affect the smooth operations of DBD. Another concern is the participation of senior management in decision making. Since Amul is much larger corporation than DBD there might be distinct possibility that most of the major decisions might be taken by the senior management of Amul sidelining the decision making power of DBD. Organization commitment can also lead to change management issues and according to (Meyer and Allen, 1997) it mainly consists of effective, continual and normative commitment (Elele, Fields, 2010). It might be possible that few employees of DBD are emotionally attached to the organisation and they may get influenced by social norms of new joint venture.

Considering the joint venture example from section 3, Bolero, another brand from Mahindra made a record sale of 50, 000 units (India Automotive, 2007-08) at the same time when Logan was struggling to make an annual sale of 6000 units. This implies that Joint venture product neglecting might take place in case of DBD for e. g. Amul might concentrate more on their sole products rather than on joint venture products. The above example depicts the importance of organisation commitment. [SD]

5. 2 Succession issue:

Potential utilization of DBD's technology should happen in order to capture the attention of new market. The modern technology/machinery used by DBD needs highly skilled employees to operate on it. It would be required in order to co-ordinate the overseas operation one of member of DBD might need to travel overseas for few weeks to provide training in regards with this. Since DBD is a firm with only 20 potential employees this might create a succession issue. In order to avoid this replacement planning should be done well in advance with proper delegation of authorities. [SD]

5. 3 Intellectual properties:

As discussed in 4. 1 the size of DBD is very small as compared to giants like AMUL or Mother Dairy. However it is better equipped technologically. DBD might come up with some innovative designs for its machines or innovative recipes for its products and would want to implement them through the options available in section 3. 0. For securing its intellectual property in this regard, the joint venture would naturally apply for patents. Just like the case of Apple denying credit to NTP for wireless email (Techcrunch, 2010); Amul may seize the patent under its name giving little or no credit to DBD. This might hamper the further innovations possible for DBD in the joint venture. [CN]

5. 4 Exit strategy considerations:

As per the discussion DBD will be investing in the overseas market, DBD will be investing in a completely new overseas market. It should have an exit strategy along with its business strategy and similar factors like this in case of

- Contrast Market conditions to the prediction

- Intense competition by the established companies making it difficult for DBD to achieve the desired targets

- Change in the government policies

DBD should consider exit strategy so that it can counter unpredictable circumstances in the investment of divesting in overseas market. DBD can sell off its shares to the parent company. Further to the discussion, the future heads of the company need to be groomed to be ready if the need for exit arises. Terms of separation could be made clear at the time of making the venture (Business Link, 2010). Consultants could be hired for settling of accounts and assets thus making the separation process smooth. Due consideration could be given to the liquidation of foreign operations as they generally involve high cost. HR strategies might be formulated either for the handover of the local employees or their absorption (Small Business notes, 2009).

The above discussion shows the importance of having exit strategies in place before entering the global scene. [CN]

6. Evaluation

The main aim of DBD for establishing their network overseas is to maximise their profit and brand development taking into consideration various constraints such as capital and limited resources. The work of Kumar and Subramaniam (1997), Chung and Enderwick (2001), as well as Nakos and Brouthers (2002) focuses much on the choice of an optimal entry mode as a critical strategic decision for companies intending to conduct business overseas (Decker, Zhao, 2004). Further, the choice of optimal entry mode can be refined by eliminating the dominant strategies, for e. g., the strategies which are higher in cost and lower in profit could be neglected by DBD (JBL, 2004).[SD]

DBD must understand the importance of “ change” in the business culture of two different countries. This part is often neglected and companies fail to understand the importance and urgency of change management. As said by (Kotter, 1998), “ Until new behaviours are rooted in social norms and shared values, they are subject to degradation as soon as the pressure of change is removed”. Thorough understanding & knowledge of overseas competitors will help DBD to constantly change their strategies and implications accordingly. Referring to section 5. 2 one way to avoid succession issue is to create a back-up pool of resources so that they can operate the machineries in absence of key members or DBD can hire new employees on contract basis.[SD]

Entering in new market is riskier as most of the time the vision is unclear due to lack of insufficient market knowledge. DBD has no prior international experience to set its overseas aims and goals. It would be required by DBD in near future to make some structural and managerial changes in order to achieve the vision. At the same time it is necessary that this vision must be properly communicated to the employees. The successful transformation process will result in leadership coalition and it will grow over a period of time. Risk taking must be encouraged along with non-traditional ideas (Kotter, 1998) and at the same time more focus should be given on risk management and innovative ideas.[SD]

Brand like Amul have 3500 dealers all over India. The way Renault used the dealers of Mahindra, DBD can also utilize the dealers of brands like Amul / Mother Dairy to reduce the time required for increasing the market share value. [SD]

Suzuki motors provided Maruti with its latest Innovation and technology which led to Maruti Suzuki growth. Similarly DBD can provide continuous innovations to established companies in Indian dairy industry for growth and sustainability. This can help DBD to achieve competitive advantage with the first mover benefit. DBD has the options of directing this competitive advantage either to cost leadership and product differentiation. (Porter, 1980) [CN]

India is one of the most cost sensitive countries (buyusa, 2010). Cost leadership has a potential of being successful considering the cost sensitive dairy market of India. Developing a technology for mass manufacturing DBD can enhance the market growth by aiming for more penetration. Consequently along with Amul’s market position it can achieve higher level of market dominance. However the buyers might have the impression that the quality is being compromised because of the low cost. [CN]

On the other hand DBD can target customers with a high quality requirement. These customers generally tend to vouch for value added products. DBD can explore new product range for example specialized products like less fat and low calorie (scribd, 2006); this can reinforce or even redefine the brand marketed by Indian dairy company. DBD’s innovative approach for such recipes would be helpful along this strategy. However the market share could be limited as majority of the Indian dairy market is cost sensitive and would not tend to buy such sophisticated products. [CN]

DBD could look for an optimum balance between mass manufacturing and high quality value added products to sustain the competitive advantage. For this, it needs to make the maximum utilization of market share and brand value of established companies in Indian dairy industry. [CN]

7. Conclusion

DBD has a bright chance to expand its market overseas if they use their business strategies wisely. Equal importance should be given to structural as well as management issues. The discussion leads us to the findings that patent technology of DBD has wide scope in Indian market. The evaluation of joint ventures from section 3 suggests that the ignorance of one factor can lead to the failure of entire venture.