

# Example of research paper on tata motors and the fiat auto: joining forces

[Business](#), [Marketing](#)



## **Introduction**

The world economy has been witnessing a slowdown in automobile sales over last 4-5 years. Most of automobile giants in many countries are experiencing a decline or stagnant sales numbers. India is no exception to that. Indian auto market was growing almost at the rate of 20% annually before the recession, but the project growth rate for the current year is only 3% (Sugato Sen, 2013). Tata Motors is one of the most reputed car manufacturers in India and Fiat is one of the best automobile groups in Europe. Established way back at the end of the 19th century, Fiat has seen more than hundred years pass by with lot of success in automobile business. In recent years, however, Fiat is facing tough times in European market and seeing declining sales. It is also facing price pressure in the market from Japanese manufacturers. Tata motors, on the other hand, started its business in 1945 in Jamshedpur, India as a commercial vehicle manufacturer. Today it is the second largest car manufacturer of Indian market and second largest bus manufacturer in the world. It is also fourth largest commercial vehicle manufacturer in the world. Tata Motors is on a fast growth path but its domestic car business is not growing bigger. On the other hand Fiat wants to grow beyond Europe and growth markets like India and China are lucrative to expand car business. These two business houses quickly understood their inefficiencies and formed a 50: 50 joint venture in 2008 to sell Fiat vehicles in India with the help of Tata Motors dealerships. Since then the joint venture has seen few lukewarm years but never lived up to its expectation. This essay will explore the factors that led to the merger and discuss the actions to be taken for this business partnership to become successful.

## **Business Opportunity in India**

Indian car market is dominated by few global automobile players like Maruti-Suzuki,

Hyundai and Toyota. India has recently been through a lot of business activity from other international players. Still it is a market which is not fiercely competitive and there are scopes to expand different segments. For instance, Tata is trying to create a completely new segment by introducing Tata Nano which is trying to capture motorcycle buyers. The entry level sedan and upper level hatchback segments are growing exponentially and this is where the volume and value lies in next few years. Tata Motors does not have much product variety in that segment apart from Indica and Indigo which too some face lift. Fiat was known for its small car segment in Europe so it can help boost Tata Motors product portfolio in that segment.

## **Can Fiat Benefit from the partnership?**

Fiat's growth in Italy is invisible. Its market image in Europe needs a major shift. However, it has some existing products very good in terms of Indian market expectations. Fiat Linea, Punto and Palio are not selling very well in other markets. Fiat needs a market to sell its ready products. If Fiat products like Linea and Punto find a strong selling ground in India then it will end in a benefit for Fiat.

Now Fiat can either enter the Indian market on its own like Toyota or Hyundai or decide to come to Indian market with a joint venture with Tata Motors. The first option will require a lot of initial investment from Fiat whereas the second option will save Fiat from a lot of initial investment and

Fiat can walk away from India if the venture is not successful with less loss incurred.

## **Can the Partnership work?**

In Indian market Fiat and Tata Motors partnership can work. We have seen how Suzuki and Maruti partnership worked. Suzuki started a joint venture with Maruti way back in the 1990s. This joint venture happened because of Maruti's need to expand its portfolio and Suzuki's need to enter a potentially big Indian market. Suzuki was quick to understand that Maruti brand name is very big in India so it never changed the brand name to Suzuki. To this day all original Maruti products are still called Maruti-Suzuki products or Maruti products even if they are built using only Suzuki technology. To make that venture successful Suzuki made huge changes in the way it works. Especially it understood the cultural differences between a pure Indian Company operations and an international company. It quickly adapted to that and made huge changes to the board to understand the needs of the Indian market. It also never tried to force itself in-front of Maruti even though it was the big brother in the joint venture.

The current joint venture between Mahindra and Renault is doing well. This joint venture succeeded because of reasons different from the one between Maruti and Suzuki. Mahindra lacked a portfolio of cars in its stable and Renault wanted an Indian partner who would help its foray into Indian market. They had complementary aspirations which helped both in the joint venture. Renault uses Mahindra dealerships to sell its cars. It has helped Mahindra acquire lot of car buyers coming to its dealerships and some of

them actually ending up buying Mahindra MUVs and SUVs. Looking at those examples we can deduce that joint ventures work in Indian market if they are managed properly.

## **Possible Challenges**

In case of Tata motors and Fiat the joint venture has lot of challenges. Maruti and Suzuki joint venture was much easier to manage from cultural perspective as both were Asian players that understood the pulse of the people and other company easily. It was easy for the management of both the companies to work with the other. However, for Tata Motors and Fiat the cultural difference is vast. The management of Fiat is predominantly European and Tata Motors management board consists of mostly Indian members. The culture of Italians (Europeans) is quite different from that of Indians and hence it needs a huge effort on the part of Fiat to understand the pulse of the Indian market.

Also both the companies have conflict of interest in the car market. With the joint venture in place now the Tata Motors dealerships will sell products for both the companies. People may come to the dealership to buy Tata Indica but end up buying Fiat Linea from the same showroom. It can happen the other way round as well. Both the companies sell cars at the same segment (Like Indica and Punto) and they may cannibalize the product of each other.

## **Strategy and Recommendations**

Although the joint venture looks good on paper it needs to work on a lot of aspects to make the venture successful. Firstly, Fiat needs to introduce some Indian members into their company management to understand the pulse of

the Indian market. This will help them understand the market dynamics and also the way Indian joint ventures work. Secondly, as both the companies work in the same segment so they should relook at their portfolio and see what they can do to minimize cannibalization of each other's products. For example, they can price ladder their products in a way so that they don't conflict with each other. Indica can be put in the price range of 3 to 5 lacs, Punto in the price range between 5 to 7 lacs, Indigo in the range of 7 to 10 lacs and finally Linea can be placed in the price range of 9 lacs upwards. This price arrangement will definitely reduce conflicts. Fiat can also try to sell Alfa Romeo cars (Fiat luxury) through Tata dealerships in India. The joint venture at this point in time is in complete disarray and needs a complete rethinking to work for both the companies.

## References

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