

Entry Strategies in Emerging Economies: The Case of the Indian Automobile Industry

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Executive Summary

In anticipation of rapid growth, the passenger car market in India is crowded with 18 companies trying to establish themselves. Most companies have joint ventures with Indian partners and have entered the market in the last two years. The number of new entrants over a narrow time window of two years is unprecedented. Demand forecasts vary and analysts expect anywhere between 2 and 3.5 million cars to be sold in the next five years. Equity holding for the international partner is usually over 50% and they retain significant managerial control. Most of them have introduced cars in the \$13,500 to \$33,000 price range, which is viewed as a luxury segment in India. Automobile companies have also chosen to establish exclusive dealerships. Initially, companies have chosen to import completely knocked down (CKD) kits and assemble them in India. However, this strategy is not effective in the long run since such imports attract 50% duty. The major implications are that a shake out is likely and that companies would need to have alternate plans, including introduction of cars in other market segments, lower prices, and exports from India if they cannot establish themselves in the domestic market. The supplier industry is very small and needs to develop simultaneously on all fronts including rapid capacity expansion, acquisition of technology, improvement in manufacturing practices, quality and productivity, adoption of lean manufacturing, and developing product design capabilities to meet the needs of assemblers. Therefore, a critical requirement for rapid growth of the industry is adequate assembler involvement in the supplier industry.

Introduction

The Government of India's new automobile policy announced in June 1993 attracted a large number of automobile companies to India. These include General Motors and Ford, and three Japanese, six European and two Korean companies. Chrysler is also seeking to enter the country with a suitable Indian partner. In addition, there are three existing Indian companies, Hindustan Motors, Premier Automobiles and Telco, and one Indo-Japanese venture, Maruti already in the passenger car market. Maruti is by far the biggest player with about 70% of the market share. As of April 1996, a total of 18 Automobile companies have either begun operations in India or plan to start soon. The number of new entrants and the level of investment within a very narrow time window of two to three years is unprecedented and seems unique to India. Compared to three major models available in the Indian market until recently, customers can now choose from a wide variety of products.

Some of the entry barriers faced by automobile companies in India are relatively high levels of import duties, a nascent ancillary industry, and product modifications required for relatively poor road conditions and high levels of heat and dust. On the other hand, a rapidly growing middle class, rising per capita income, and high levels of latent unsatisfied demand with customers starved of world class options promise enormous opportunities. For instance, from current sales of around 300,000 passenger cars in 1996-97, sales are expected to rise to anywhere between 850,000 to 1.7 million vehicles by the year 2000. Automobile companies have announced plans to instal capacity of around 900,000 vehicles by the year 2000. The number of cars sold over the next four years is going to be anywhere between 2 and 3.5 million vehicles.

It is not certain how exactly demand will grow and on what factors it will depend, and whether there is room for so many players. The supplier industry also faces enormous challenges to keep pace with rapid growth. Manufacturing practices will have to change considerably to come closer to lean production. It is also possible that some companies will increasingly use India as a base for exporting vehicles to other countries. These issues will become clear as the future unfolds. At this stage, we describe and analyze the entry strategies of multinational companies in the Indian automobile industry.

Entry Strategy

Entry strategy for international markets is a comprehensive plan, which sets forth the objectives, goals, resources, and policies that will guide a company's international business operations over a future period long enough to achieve sustainable growth in world markets (Root, 1994).

The time horizon we have used for entry strategy research is 1 to 3 years. For a company, each product in each foreign market has a different entry strategy. The corporate international entry strategy is a combination of the different entry strategies of its various products in various foreign markets. There are various elements of entry strategy. In this paper, we have considered the following elements:

- choice of product
- choice of target market
- choice of an entry mode to penetrate the target country
- timing of entry
- magnitude of investment and area of competitive emphasis
- marketing plan to penetrate the target market
- control system to monitor performance in the target market

Research Findings

The Indian automobile industry is still in its evolutionary stage. There is no widely accepted method of segmenting the Indian market as yet. The segmentation provided in this paper is based on an understanding of the current state of the industry. These segments are quite different from the segments known in the US, European or Japanese markets. The following four segments that have been identified :

- 1) Off-road vehicles, e.g., Maruti Gypsy, Mahindra Armada, Tata Sumo.
- 2) Economy segment, comprising cars priced at less than \$13,000 e.g., Ambassador, Premier, Maruti 800.
- 3) Luxury segment, comprising cars within the \$13,500 to \$33,000 price bracket, e.g., Zen, 118NE, Contessa, Esteem, Sierra, Peugeot, Astra, Cielo, Ford Escort, Volkswagen, Mitsubishi Lancer.
- 4) Super luxury segment, comprising cars priced higher than \$33,000 e.g., Mercedes-Benz, BMW and Audi.

This segmentation is largely based on price and reflects the fact that an automobile is currently priced at about 18 to 24 months salary for individuals in the target segments. This is in contrast to Western markets where prices are less than 6 months salary. However, middle class incomes are rising rapidly. A model sold in the West is likely to cost more in India for some time to come because of import duties. With progressive reduction in duties and increasing indigenization, prices are likely to come down in the future, at least in real terms. The adverse price to income ratio will therefore come down, and is likely to further spur demand. Some automobile companies are also planning to use India as a manufacturing base to supply cars to other countries. This has the added advantage of eliminating duty payments for exported cars.

The Appendix gives the entry strategies of thirteen new entrants to the Indian automobile market, in terms of the different measures of entry strategy identified. A close look at the entry strategies of the multinational companies in the Indian automobile industry points to some distinct patterns. Except for Audi, which is targeting a premium market niche, and Hyundai, the rest of the companies have set up joint ventures with Indian partners. Audi has announced plans for franchising automobiles. Recently, Hyundai has announced plans to enter the country with a wholly owned subsidiary. For most of the new joint ventures, management control lies with the MNCs. For example, though General Motors India is a 50:50 joint venture of GM and Hindustan Motors, ten International Service Personnel from Opel form the entire top management team of General Motors India. Similarly, Daewoo in DCM Daewoo Motors, Ford in Mahindra Ford, Mercedes in Mercedes Benz India Limited, Honda in Honda Siel, and Volkswagen in Eicher Volkswagen exercise significant management control. All these companies have expatriate managers in top positions.

Incremental internationalization is the mode recommended by management scholars (Ansoff and McDonnell, 1990) and observed in a number of studies by researchers from Western countries (see Johanson and Vahlne, 1977; and Welch and Luostarinen, 1988). Initial involvement in a foreign market is conceived as a gradual and sequential process by most of the studies. This gradual pattern is thought to be the consequence of greater uncertainty, higher costs of gathering information, and the lack of experiential knowledge in international marketing activities. Several distinct stages are identified along the internationalization process for a firm in a foreign country, including pre-export stage, experimental involvement, active involvement, and committed involvement. However, the multinational firms cited here have directly gone in for active involvement. This could be due to high import duties for cars, inadequate existing capacity, and expectations of rapid demand growth. Most automobile companies have preferred joint ventures even though the government is not restricting foreign companies from setting up wholly owned subsidiaries. Joint ventures provide international companies with partners who understand local markets, government regulations and the supplier industry better, and also reduce initial risks.

An interesting feature of car sales is the use of 'bookings', i.e., getting customers to deposit \$500 to \$1000 for a car that will be supplied a few months from the date of booking. This method of trying to tie up customers is possible because of the large amount of unsatisfied pent up demand, severe capacity shortages, and the initial glamour for foreign cars. These bookings are so successful currently that a company's entire capacity is booked within a month. Some credit card companies are encouraging its card holders to book cars by offering to cover them if they choose to default and not buy the car at a later date. The total number of bookings made across all companies is much more than the most optimistic demand estimates. This suggests that many bookings are speculative and there could be an active secondary market for these bookings as production takes off and deliveries begin. Another factor fuelling advance bookings is the practice of many business houses supplying cars to their executives as perks.

Implications

There are 18 automobile companies jostling for a market whose size by the most optimistic estimates is around 1.7 million vehicles per year by the year 2000. Clearly, sufficient room for so many players is not there. This means companies will need to have clear strategies on what they will do if they are not able to establish a viable market presence. One alternative is to use India as a manufacturing base to supply cars to other countries in South East Asia, Middle East and perhaps the Eastern block countries.

The other major implication is that automobile companies need to pay attention to the development of the supplier industry. Rapid growth in assemblers' capacity is possible only if suppliers are able to keep pace with them. The strategy used by Suzuki in 1980 of facilitating joint ventures between its major suppliers in Japan and some Indian companies is a good one. However, the supplier industry needs to grow, acquire new technology, improve manufacturing practices, quality and productivity, and restructure itself into first, second and third tier companies. There is also a lot of pressure on suppliers from assemblers to acquire product design capabilities. Simultaneous, fast development on so many fronts is possible provided assemblers facilitate the process.

Automobile companies may also need to rethink their strategy of introducing models successful in developed economies into India. High quality roads allowing driving speeds of over 50 miles per hour over long stretches are still rare. These models are still perceived as high priced luxury cars by the middle class. For car sales to really take off, tailored products at lower prices may be an alternative. Automobile companies are also not paying enough attention to vehicles other than passenger cars. There is likely to be a lot of opportunities in products like jeeps, light commercial vehicles, buses and trucks. These markets are growing fast and there is relatively little competition.

Future Research

This research throws up some interesting areas for future work. One area is comparison of strategies adopted by automobile companies in India and in other emerging markets, and also in Western and emerging markets. Another area of research is the comparison of strategies of companies from various countries, like US, Europe, Japan, and Korea in India. With the passage of time, research can try to establish linkages between entry strategy and performance. One of the most interesting questions will be to research the response of automobile companies to the shake out which many industry analysts expect.

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APPENDIX

Table I: U.S. Companies

	GENERAL MOTORS	FORD
Name of Co.	General Motors India Limited	Mahindra Ford India Limited
Market	Luxury segment	Luxury segment
Entry Mode	Joint venture	Joint venture
Partner	Hindustan Motors of CK Birla group	Mahindra & Mahindra Limited
Capital Structure	GM - 50% HM - 50%	Phase I: Ford 6%, M&M 94% Phase II: Ford 50%, M&M 50%
Timing of Entry	March, 1996	Phase I: May 1996 Phase II: September 1998
Total Investments	US \$ 117 million	Phase I: \$50 million Phase II: \$800 million
Brands	Opel Astra 1598 cc., Vectra & Corsa for clinic test	Phase I: Escort 1300 cc. Phase II: Fiesta 1000 cc
Adaptation	Minor, e.g., fuel injection system, suspension, tyre size, side roll protection, paint, etc.	Indian adaptation of Ford Escort done. Engine capacity, car features and AC system modified to ensure durability.
Price	US \$ 21,500 to US \$ 23,330	Escort : \$ 15,000
Distribution	Totally new dealership network. 9 exclusive dealers. 19 by mid-1996	Not announced
Plant Location	Halol, Gujarat	Phase I : Nasik Phase II: Madras
Production Plan	1995-96: 5000; 2000: 100,000 1996-97: 12500; Exports: 1000 per year 1997-98: 25000;	Phase I: 1996-97 25000 Phase II: 97-98 50000 1997-98 125000 1998-99 100000
Indigenzn Level	current : 47% target : 75-80% by 2000	Not announced

Chrysler is also planning to enter the Indian market.

Table II: European Companies in the Super Luxury Segment

	BMW	MERCEDES BENZ	AUDI
Name of Co.	BMW India Limited	Mercedes Benz India Limited	Audi AG
Market	Super-luxury segment	Super-luxury segment	Super-luxury segment
Entry Mode	Joint venture	Joint venture	Franchise
Partner	Hero Motors	TELCO	Ashiya Motors, Bombay
Capital Structure	BMW - 51% Hero - 49%	Benz - 51% Telco - 49%	Audi - 100%
Timing of Entry	1998	October 1995	March 1996
Total Investments	Not announced	\$ 116.67 million	Not announced
Brands	BMW 7 Series	Merc E220 Merc D250 Merc E230	Audi A4
Adaptation	Minor	None	Significant
Price	US \$ 66,667 to \$ 83,333	\$ 66,670	\$ 63,333- \$ 100,000
Distribution	Uttar Pradesh (Greater NOIDA)	Pune, Maharashtra	Not applicable
Plant Location	Not announced	700 (95-96) 15000 (97-98) 3800 (96-97) 20000 (98-99)	Not applicable
Production Plan	Not announced	current : 2.5% target : 70% by 2000 AD, 85% in 10 years.	Fully imported car
Indigenization Level	Not announced	current : 2.5% target : 70% by 2000 AD, 85% in 10 years.	Fully imported car

Other super-premium car makers, like Rolls Royce and Jaguar have also announced their plans to enter the Indian market.

Table III: Other European companies

	FIAT	VOLKSWAGEN	PEUGEOT	ROVER
Name of Co.	Premier Automobiles Ltd.	Volkswagen Eicher Ltd.	PAL Peugeot Ltd.	Sipani Automobiles Ltd.
Market	Economy segment	Luxury segment	Luxury segment	Luxury segment
Entry Mode	Phase I Technical tie-up, Phase II Joint venture	Joint venture	Joint venture	Joint venture
Partner	Premier Automobiles	Eicher	Premier Automobiles	Sipani Automobiles
Capital Structure	Ph I: PAL 100% Ph II: PAL 50% Fiat 50%	Volkswagen 50%, Eicher 50%	PAL :32% Peugeot 32% Rest held externally	Sipani- 65% Rover - 15% Public- 20%
Timing of Entry	Ph I: Feb 1996; Ph II: 1998	1998	August 1995	September 1994
Total Investments	Ph I: \$15 m; Ph II: \$50 m	\$ 600 million	\$ 207 million	\$ 44 million
Brands	Ph I: Fiat Uno 1000 cc. Diesel model 1700 cc. Ph II: A 178 world car	City Golf 1300 - 1600 cc	Peugeot 309 1360 cc	Montego Clubman 1500 cc. Montego D 1500 cc.
Adaptation	Not announced	Not announced	None, Extensively used in developing countries.	Not announced
Price	Uno \$10,000 to \$11,670; Model 178 \$5,000	\$ 20,000	\$14,000	\$ 25,000 to \$ 33,330
Distribution	Newly appointed dealers with emphasis on customer service and relations	Not announced	32 dealers (50 outlets) Target : 100 dealers.	Not announced
Plant Location	Ph I: Kurla, Bombay	Faridabad	Kalyan, Bombay	Bangalore
Production Plan	Peak prod. and capacity 50,000 Exports: 2000 per year	60,000	95-96: 5000 96-97: 11000 97-98: 20000 Exports: 1996: \$3.4m 2000: \$30 m	95-96: 5000 96-97:15000
Indigenzn Level	current level: 15%	Not known	current: 24% target : 79% by 2000 AD	current level: 7%

Some other European car makers including Volvo and Renault, are considering plans to enter the Indian market.

Table IV: South East Asian Companies

	HONDA	MITSUBISHI	DAEWOO	HYUNDAI
Name of Co.	Honda Siel Cars India Pvt.Ltd	Hindustan Motors Ltd	DCM Daewoo Motors Ltd	Hyundai Motors
Market	Luxury segment	Luxury segment	Luxury segment	Not known
Entry Mode	Joint venture	Joint venture	Joint venture	Wholly-owned subsidiary
Partner	SIEL	Hindustan Motors	DCM-Toyota	Not applicable
Capital Structure	Honda - 60% SIEL - 40%	Mitsubishi-10% HM - 90%	Daewoo - 51% DCM - 34% Toyota -2.6% Public 12.4%	Hyundai - 100%
Timing of Entry	Mid 1997	1997	July, 1995	1997
Total Investments	US \$ 283.33 million	\$ 83.33 million	US \$ 1000 million	\$ 500 million
Brands	Civic 1300-1500 cc.	Lancer -1300, 1500 and 2000 cc	Cielo 1500 cc. GL/GLE/GLX	Accent 1000 - 1300 cc
Adaptation	Significant New model	Minor	New brand name. Large number of minor modifications	Minor
Price	US \$ 16,670 to \$ 20,000	\$ 13,330 to \$ 16,670	US \$ 15,300 to 19,000	Not announced
Distribution	Not announced	Not announced	46 dealers, 30 more being added. 100 authorized service centres	Not announced
Plant Location	Greater NOIDA	Madras/Indore	Surajpur, UP	Marimalainagar(Madras)
Production Plan	97-98: 10000 98-99: 20000 99-00: 30000	95-96: 5000 96-97: 5000 97- 98: 30000 Capacity : 65000 (97-98) 75000 (98-99)	95-96: 20000 96-97: 70000 97-98: 150000 98-99: 200000	Capacity 100,000
Indigenzn Level	current: 45%, target : 65% by 2000 AD	current : 47%	current :30% target : 80% by 2000 AD	Not announced

Note. : Major Japanese auto makers, like Toyota, Nissan and Subaru are also considering plans to enter the Indian market.