IMPACT OF JOINT VENTURES IN THE EMERGING AUTOMOBILE MARKETS
CASE STUDY ON JOINT VENTURE OF VOLVO MOTORS AND EICHER MOTORS

Dr. Lalita Mishra
Guest Lecturer, Govt. KRG. PG College Gwalior, M.P., India
Email: vibhulalita28@gmail.com

ABSTRACT
The current scenario of business market has become dynamic and the continuous growth of the competition level has led the business organization to adopt the strategic moves which may provide them the competitive advantage over the others in the marketplace. From among the number of alternatives available to enhance the competency the most effective is the incorporation of joint venture. This strategy allows the organization to reap the benefits of the market as one by using the resources and the market of each other. The following study is based on understanding the impact of the joint venture in the automobile industry with regard to the joint venture that has been taken place between the Eicher and Volvo companies in the commercial vehicles. Thus the following research will focus on the impact of the joint venture and the various related issues.

Keywords: Automobile Market; Volvo Motors; Eicher Motors

INTRODUCTION
In the world of trade or business cycle increasing day by day, the popularity of the joint ventures have become elevated for gaining the advantages in the moving competition by accessing the resources of the partners, which also consists of the market places, and new innovations and technologies, people and the investment. In a period of time which has been already set by the two or more parties, work together on a planned project is known as the joint venture agreement. Both the parties have the same expectation with the intangible goals and set objectives in the joint venture. (Luo & Yan, 2001) The fifth largest markets of automobiles in the world, Eicher Company which is Delhi based and the AB Volvo which is Sweden based, have declared a joint venture in India. They both together proposed it a name as VE Commercial vehicles where the Volvo Company will help the Eicher for exporting its automobiles in the markets which are up-coming in Asia, Latin America and Africa. Due to this reason, at the period of their joint venture, the two companies Volvo and Eicher will produce the branded trucks and sell them independently. (BusinessStandard, 2007)

Company Background
In the production of the large commercial automobile market, Volvo is considered as the world’s best producers for producing the diesel engines and the commercial vehicles. It was founded in 1927. The main focus of the Volvo group is strategically based on the operational superiority, the growth which is profit giving, and on the renewal of the product. In South America, North America and Europe, the Volvo group stands on a very powerful position. In

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Asia, the position of the group has been powered with the help of acquisitions of the UD trucks and the collaboration in the trucks with the help of Indian Eicher Motors. With the help of its production and the increase in sales and the channels of distribution among all the continents, the Volvo group has recognized a strong international industrial structure. (VolvoGroup, 2011)

To produce the profitable automobiles which are fuel effective, consistent, with modern technologies, Eicher Motors was introduced in 1982. With the market stake of 34 percent, Eicher Motors has been considered as the most effective leader producers of the profit making automobiles. A financially effective and technical cooperation with Mitsubishi Motors in Japan collaborate with Eicher to produce the Canter variety of automobiles in the year 1986. A very powerful network that consists of the authentic and reliable distributors and the private mechanics that are trained by the company helps in the functioning of the Eicher Motors. All over India, from start to end, a network of 577 authentic points of contacts helps to sell and service the automobiles, with the support of service centres in the excess of nearly 4510 trained private company mechanics. (Eicher, 2004)

OBJECTIVES

1. To identify the need of joint ventures and how viable they are in the emerging automobile industry of the present era.
2. To analyze the challenges AB Volvo and Eicher Motors may come across while working together.
3. To identify the strategies that can be applied to overcome the problems in joint ventures.
4. To identify the deliverables and benefits, this joint venture may bring to both companies & strengthens their market position.

RESEARCH QUESTIONS

1. Is there any reason for the formation of the joint ventures? Does it have any importance?
2. Do AB Volvo and Eicher have any issues I forming the joint venture?
3. While working in a joint venture what type of modifications are needed in the management of Volvo and Eicher?
4. Are there any business benefits that joint ventures can bring for the Volvo and Eicher?
5. What can be done in order to avoid the failures in the joint ventures, if any?

LITERATURE REVIEW

Introduction of the Joint Venture of Volvo with Eicher Motors

For manufacture of centre heavy engines in the Pitampur plant, Volvo Group’s joint venture with Eicher Motors Limited in India broadcast a deal of SEK 480 M

According to sources secure to the development, the offer could consist of more than the distribution network itself as the total investment by AB Volvo into the venture is $350 million, which also incorporates the dealer network valued at $75 million and Volvo’s Indian truck service. According to the sources both the industries have to sign an ultimate
agreement for this purpose on the way to the end of the month. The joint venture which has been proposed by the companies, AB Volvo will keep up 45.6 per cent stake while Eicher Motors will have the rest. (Scott, et al, 2008)

**Theoretical Aspects of Joint Ventures**

For a definite time when the two industries sign a business agreement, new entity and new assets are formed by contributing the equity is known as a joint venture. They share the assets, incomes, and the expenses, and have complete execution control over the enterprise. Also, there are different kinds of industries such as JV limited by guarantee, joint ventures limited by guarantee with partners holding shares. On the other hand, when two or more persons come together to form a temporary partnership for the purpose of carrying out a particular project, such partnership can also be called a joint venture where the parties are "co-venturers". (Luo, et al, 2001) The venture can be only for single definite project when the JV is referred to more correctly as the continuing business relationship or the building of the Channel Tunnel. The grouping JV is called as the cooperative agreement is formed where one party searches for technical service arrangements technological expertise, management contracts, franchise and brand use agreements, rental agreements for one-time contracts. The JV is liquefied when that objective is reached. (Rosenbaum, et al, 2009)

**Joint Ventures in India**

Principally, if there is a need then, only through the single autonomous entity, the Reserve Bank of India (RBI) have the right to repatriate not any other. India does not control the repatriation of dividends, investments, and profits. the Rupee, the Indian currency is convertible completely for the incomes at free market rates. The industry has been divided into three categories by the Industrial policy:

- one who are reserved for public sector development,
- one who are without State participation or under private enterprise with, and
- investment initiatives will would ordinarily originate from private entrepreneurs in them.

**Automatic licensing and administered licensing**

For a short time, India facilitates investments both from beginning to end Foreign Direct Investment (FDI), As of April 2010 India’s investment policy is presented at the site. Meant for long-term controlling investments and Portfolio Investment, likely short-term capital market operation taking a position by buying shares of a company. In the Indian capital markets the Foreign Institutional Investors from highly regarded institutions (like mutual funds, pension funds,) may participate. (Scott, et al, 2008) If we see the current policy highlighted above Industrial approvals are regular for most manufacturing industries with equity investment as of 1997 to 74% in certain select industries and up to 52% foreign control. For another 36 sectors there some are altering limits without productivity restrictions. For the invested entity RBI approvals come within two weeks. Previous to the approvals for such cases the Investments can stream to the country.

**The joint venture of Volvo & Eicher**

In India, Volvo has been a secondary player in the profound manufacturing vehicle industry since, it has not been competent to build out a strong delivery association. In December 2007, Volvo and Eicher decided to set up a joint venture, and this was the best set of

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decisions that the two could bring to each other for attaining major profits and become the leading giants of the automobile industry. In August 2008, a subsidiary called ‘VE Commercial Vehicles’ has been formed as it was officially approved by the courts. (Brubaker, 2000).

Indian Automotive Industry

In India, commercial vehicle market is still under development stage and there is great scope of more development in the sector. Previously in India vehicle industry was only focused on low tonnage for the use of other industries in the country was lacking in quality national roadway system. With the time things got changed, after the establishment of the golden quadrilateral, a 6000 km roadway which linked all four corners of the country, transportation system got improved. High tonnage vehicles were used for the longer distance and this provided opportunity for development of better distribution and service. At that Eicher was having very strong distribution network but was lacking in right product mix. (Eicher, 2004)

RESEARCH METHODOLOGY

Research Method

Researcher used exploratory and qualitative method because of the following advantages:

- It enables more complex aspects of a persons experience to be studied
- In the case questionnaire there are restriction over the response, but in the qualitative there is no restriction over the respondent to give answer and we can have deeper insight.
- It is not possible to quantify every thing (for example, individual experiences)
- Individuals can be studied in more depth
- Because fewer assumptions are placed on the thing being studied it is great for exploratory research and hypothesis generation
- The participants are able to provide data in their own words and in their own way

Main objective of this research is to analyse the role of joint venture in the growth of automotive industry. We will also try to analyse various benefits and risk associated with the joint venture strategies of the company. For the purpose of the study we will first review different relevant literature that is available. After the literature we will interview the 120 people who will include normal customer, Volvo customer and its employees. We will also use the secondary data of companies for the research.

Data Collection

Data can be categorized into two categories- primary data and secondary data. Primary data can be collected either through experiment or through survey. If the researcher conducts an experiment, he observes some quantitative measurements, or the data, with the help of which he examines the truth contained in his hypothesis (Goddard & Melville, 2004).

For this study we will use primary data which will be collected from the managers and customers of the company with the use of a questionnaire. We will also some other sources like different reports, journals, newspaper articles to collect other necessary data. This will help in developing better understanding of the problem. Quality control techniques will also be used to avoid the non-sampling error that can be from either respondents or interviewer.
DATA ANALYSIS AND ITS INTERPRETATION

Data analysis has various levels and phases in which its initial level is data mining. Data mining is the initial and an important technique in conducting data analysis. In data analysis, there are also various categories of the appliance these are: exploratory, descriptive and confirmatory analysis.

Initial data analysis

The term initial data analysis and primary analysis are often taken as one but this is not so because both are different aspects of analysis process having the distinct features. The initial data analysis is concerned on the filtering of the whole analysis process. The primary motive is to check the suitability of the data so collected in satisfying the research study questions. This will lead to the enhanced quality of the research and excellence provision of the data to take the research study in the proper and suitable manner. It can be done through various instruments being manage available to the researcher to ascertain the data so gathered will efficiently fulfill the requirements of the study so undertaken.

In carrying out the main data analysis phase the two widely used approaches will be taken that is exploratory and confirmatory approach. The selection of the approach is predefined before the data is collected.

Exploratory approach: this approach is used in order to examine the data that has been collected. It is one of the most vital tools used in data analysis. It is based on several kinds of graphical methods. The method used in the research study consists of a variety of graphs such as pie chart, histogram etc. and the information that is interpreted is discussed in the research report later.

Confirmatory approach: Confirmatory data analysis approach is such instrument which makes help in measuring the success of the research study. As the research study so undertaken is based on the impact of the joint venture in the automotive industry.

Automotive industry is the most comprehensive and established sector that has captured the major share of the market, also it is progressively more typify by the global joint ventures of the major giants in the rising developing economies. The automotive industry segment is facing the cut throat competition world wide that has ultimately led to increased competition and entry of numerous competitors. Being one of the major and fastest growing sectors in the world its dynamic and sustained growth stages are explained by the nature of competition in the industry, product life cycle and consumer demand. The turning point for the concerned industry is led through global joint ventures among major companies operating in the automobile industry.

As undertaking the joint venture is beneficial for the automotive giants in performing the operations and activities effectively and efficiently in a global competitive marketplace. The increased trade opportunities have made the competition in the industry to be fierce among the numerous automobile manufacturers operating worldwide. Automobile sector and the industries operating there in has to keep pace with the upcoming technology in order to enhance the production level and effectively face the competition in the market place. It is revealed that the global automotive industry has three major trends that are as follows:

Global Market Dynamics – under global market dynamics the major giants operating in the automobile manufacturers are increasingly investing the production facilities in rising and
promising markets in order to decrease the production costs and thus yielding increased in profits.

Global Alliances – with regard to dynamic scenario of the business environment, there is increased trend of joint venture in global automotive industry. Most of the giant automobile manufacturers are merging with each others. For example: The Chrysler Daimler-Benz merger, was undertaken by the European automotive firms in order to reinforce its position in the U.S. automobile market. Overall, there is also seen the trend by the world automakers in developing and incorporating ventures with other giant automotive companies in the international marketplace.

Consolidation of the industry – it has led to increased global competition amongst the global automobile manufacturers and thus allowing effective positioning of the firm in the global markets.

The joint venture has been undertaken by the major industries in the economy and has led to immense impact on the industry and its growth factor. However the venture undertaken by the Eicher and the Volvo in the automobile industry is beneficial to the two companies and the over all economy can be revealed from the analyzing both the companies internally and externally through their strengths and weaknesses, opportunities and threats in the business environment so that the effectiveness of the venture can be assessed in an effective manner.

Before carrying out the data analysis of the joint venture between the Eicher and the Volvo it is important to analyze the core strength and weaknesses of the two companies in order to evaluate the effectiveness of the joint venture so undertaken. For this purpose the SWOT analysis is undertaken which is as follows:

**SWOT Analysis of Eicher Company**

**Strengths**

- One of the leading manufacturers having established brand and extensive dealer network
- Tie up with Volvo would enhance presence in CV market
- Sufficient Cash on balance sheet for funding capex
- Eicher has been enjoying the significant level of trust in terms of quality among its customers being spread globally. In terms of its financial resources it is able to maintain the low debt to equity ratio that means the company bears less risk component.
- Company is the quality conscious in terms of leveraging the satisfaction to its customers along with the carrying out the production at considerable competitive cost. Thus giving it the advantage and opportunity of maximizing the profitability by undertaking the strategic alliance through joint venture.
- As the automotive sector is the vast enough having immense opportunities to grab thus the joint venture so undertaken will be beneficial in facing the fierce competition and thus enhancing the core competency.
Weakness

- The weakness of the Eicher is that its production capacity is comparatively less to Volvo and to manage such a large business it is important to focus on the capacity management in order to leverage the benefits of the venture.
- Minimal presence in the fast growing LCV goods segment
- Having manufacturing presence in only one location
- Lack of captive financing

Opportunities

- Company will get access to the global market after incorporating this strategic alliance activity through joint venture and also will give the opportunity to explore in the market.
- It will assist in consolidation of the automobile industry which is the major and important sector in the economy thus making it able to fight for the cost advantage by becoming global without investing much in distribution and dealers.
- Use of Volvo overseas network to boost exports
- Increased sourcing by Volvo from VECV (e.g. engines)
- Increasing share of road in freight movement

Threats

- The prevalent fierce and aggressive competition in the automobile industry.
- Intense competition from existing players
- Global players entering the market would further aggravate competition

Swot analysis of Volvo Company

Strengths

Volvo it fully owned subsidiary of the ford motors company which is the major and leading automotive industry in the international market. This provides in grabbing the advantages of technological and innovative advancements from its parent company that is ford. Due to its strong research and development activities being undertaken is widely recognized in providing the quality and safe products to its consumers. In its domestic market it has the major market share where its sale is considerably high as compare to its competitors.

Weaknesses

It suffers from the optimum manufacturing facilities in US market. This led to increased production costs. Also its bi fuel products sale is also been seen to decline over the years in spite of undertaking the significant marketing activities and considerable reduction in costs.

Opportunities

Volvo has the significant market share in the automotive industry and it has immense growth potential also to strengthen its share in the market it has been adopting the strategic alliance through incorporating the joint venture. Thus ultimately leading to enhancement in the sales and thus yielding the competitive advantage over the other in the market place.
Threats
There are various well recognized brands operating in the automotive sector such as Audi, Benz providing the premium product range to its customers are expected to increase their offering and making the competition level more stiff. Also increased production by various other Japanese companies can also be the threat to the company.

However the strength of the eicher and volvo can be summed up as follows
Eicher is the leading company in LD / MD segments with the Specialist skills and experience in developing low cost, better performance products. It also has the Wide dealer network along with the provision of after sales infrastructure for LD / MD performing Cost effective operations. On the other hand Volvo is the globally recognized company having expertise in the vehicle manufacturing along with the Leadership in product technology, Good infrastructure facilities, Well-defined processes and controls thus maintains and develops the effective Brand image and customer relationships. The joint venture of the two giants will lead to Most innovative products covering entire range, will be able to build Comprehensive network, Proactive solution / service provider, Best fuel economy, Reliable products, Superior service quality, Safety and comfort setting industry standards, Culture incorporating best of Eicher values and Volvo Way, Professionalism, honesty, people caring to attract best talents in industry.

Questionnaire: questionnaire is the most important tool that incorporates various kinds of questions that are being based on the research issue so concerned. The following questions were being asked from the respondents with regard to the research issue which are as follows:

- What can be the potential reasons behind formulation of the joint ventures?
- What are the key issues in joint venture that AB Volvo and Eicher may come across?
- What all benefits are attached with the joint venture?
- What strategies can be applied in order to face the problems if arises in the joint venture?
- Are the employees satisfied with the strategic decision taken by the management of incorporating the joint venture?
- Are the potential objectives and strategies of the organization behind undertaking the joint venture between the companies being conveyed to the employees?
- Is information flow effective and there is utilization of effective communication channels?

Interpretation of the Results
Q)1 what all benefits are attached with the joint venture? Cost effectiveness, increase production, competitive advantage
When the respondents were asked regarding the benefits attached to the joint venture of the two automobile giants the advantages revealed as it will lead to the cost effectiveness along with the increase production. Also both of the companies are performing well in their markets so it will be helpful to enhance the competitive advantage for both.

Q).2 Are the employees satisfied with the strategic decision taken by the management of incorporating the joint venture?

Regarding the major and the strategic decision taken by the management of incorporating the joint venture majority of the respondents were satisfied with the concerned decision.

Q).3 Are the potential objectives and strategies of the organization behind undertaking the joint venture between the companies being conveyed to the employees?

As both organization has the effective management system and the decision duly taken by the management or higher authority is being conveyed to the people of the organization.

Q).4 Is information flow effective and there is utilization of effective communication channels?

Regarding the flow of information majority of the employees were satisfied with the communication channel being used within the organization. However it is also found that the about 30% of the respondents were not satisfied with the communication channel so it should be given due concern.

Q).5 Is joint venture likely to affect the wealth of the shareholders of both the firms?

- Yes

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Joint venture is the strategic decision being taken by the corporate heads of both giants and also they are the major market players so the responses so received revealed that it will duly affect the wealth of the shareholders.

Q).6 Is joint venture affected the working culture of the organization?

The organization culture is being influenced by the number of factors so the incorporation of the joint venture will obviously bring the work culture of the organization into one another.

CONCLUSION AND RECOMMENDATIONS

Competition is an inseparable element in today’s dynamic business environment. The competition does not only exist in the domestic country but has spread all over the globe. All the sectors operating in the economy are facing the cut throat competition and in order to lead in the current market situation it is important for the business to undertake the business activities that may enhance its profitability and growth in the market. There various strategies being adopted by the business houses in order to enhance the long term success. These strategies are diversification, integration etc but in order to face the competition at international level major strategies are being undertaken such as mergers and acquisitions, strategic alliance or joint ventures, takeovers etc. From among these Joint Ventures (JVs) are becoming more and more popular in order to gain competitive advantage by having access to the partner’s resources, including markets, technologies, capital and people. However a joint venture is an agreement in which two or more businesses work together for particular period on the same project. Joint Venture participants share a common expectation regarding the nature and amount of the expected financial and intangible goals and objectives of the joint venture. The concerned research study was based on understanding the impact of the joint venture from various dimensions. For the following purpose the case study of joint venture of the Sweden-based AB Volvo and Delhi-based Eicher Motors is being studied. The joint venture company has been named as VE Commercial Vehicles. The joint venture has been incorporated in India a developing nation.

Also to analyze the success of the joint venture among the two corporate giants the strategic analysis tool were used. This include the analysis of the industry as a whole along with this
the SWOT analysis of both companies was conducted to ascertain the strengths, weaknesses opportunities and threats of both organization. Than the venture company so formed that is VE commercial vehicles SWOT analysis was performed to understand the potential benefits so arising. Also the analysis on the porter five force model was performed that has given the insight on the potentialities of the market and also the issues which should be duly considered. Thus it can be concluded from the analysis that the joint venture between the Eicher and Volvo so undertaken is beneficial for the both the companies and the economy as a whole. The companies are now in a situation to face the completion in an effective manner as it has made them more competitive and can having the reasonable share in the market globally.

REFERENCES

