FORD'S EXIT IN INDIA- A CASE ANALYSIS

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Introduction

On September 9, 2021, Mr. Raghavan, the general manager of the Ford dealership in Coimbatore was scanning through the headlines of the business dailies in his office. The news about Ford Motors India Pvt Ltd winding down its plants in Chennai, Tamilnadu, and Sanand, Gujarat caught his attention. Though the information published in the news article was anticipated, he wondered how the situation has turned out to be so worse for one of the giants in the automobile world. The Economic Times carried a half a page article about the decision of Ford Motors India Pvt Ltd to shut down its Indian operations after incurring an operational loss of more than 2.5 billion dollars. Mr.Raghavan joined the Ford dealership in 2017as general manager, though he had his doubts about the prospect for Ford, he was assured by the promoters of the dealership that the company is having big plans for their Indian operations. Prior to joining the Ford dealership, he was heading the operations of MEG motors, a prominent dealership of Hero Motor Corporation Limited in Coimbatore. From 2017 till the time of the exit, Ford Motors Pvt Limited was communicating otherwise with the stake holders like their talks with Mahindra and Mahindra Limited for a strategic partnership, additional investment in India to strengthen their position etc. Even after the exit Ford Motors was giving press releases that they would like to enter the Indian Market in the electric vehicle segment. The dealership had requested Mr.Raghavan to continue in his position as they had to take care of the service requests of the existing clients as well as the future prospects of operating the electric vehicle dealership of Ford Motors India Pvt Ltd. Mr.Raghavan was mulling over the options available to him, he was caught between continuing in the current role or look for better options. Having served in the automobile Industry for more than 15 years, he was wondering what went wrong for Ford Motors in India. He also wanted to know what strategies Ford Motors should adopt if they want to re-enter India in the future.

Automobile industry in India:

India's automobile industry has attained a prominent place at the global level; India is the largest tractor manufacturer and second-largest bus manufacturer in the world. It also holds the distinction of being the largest two-wheeler and three-wheeler manufacturer in the world. Not to be left behind, it holds the coveted position of the third-largest truck manufacturer and fourth-largest car manufacturer in the world.

The automobile industry in India has come a long way post-liberalization in 1991. The New Industrial Policy, which was introduced in 1991, removed major bottlenecks plaguing the Indian industry like investment, expansion, and foreign investment. Licence Raj was abolished for all (except 18) industries, and the passenger car industry was de-licensed in May 1993. The liberalization of the economy in the 1990s paved the way for big names in the automobile world to establish their base in India. Exhibit 1

Liberalization marked the true influx of modernization and globalization in the Indian automobile industry. An industry that sold only 2 lakh vehicles in 1990 was reported 10 times more sales in a span of twenty years. Exhibit 2

The Indian automobile industry is one of the major driving forces of the Indian economy, contributing nearly 45% of the country's manufacturing GDP and 7.5% to the overall GDP. The contribution of the sector to the country's employment scenario is commendable. 32 million people are employed in the automobile sector. The automobile industry is valued at 93 billion $ and it is growing at a steady pace. From the current contribution of 7.5% to the GDP, the government is targeting a 12% contribution and employment contribution of 50 million people. The automobile industry in India comprises two-wheelers, three-wheelers, passenger vehicles, and commercial vehicles. Exhibit 3.

The passenger vehicle segment has evolved rapidly post-liberalization, from a mere 3 player market scenario in the early 90s. Today it boasts all marquee names operating in India. The Indian passenger vehicle segment is unforgiving, it lays the path to success for players who have understood the pulse of the market and customize their offer accordingly. It has also punished players, including the top names in the automobile world who do not want to change as per the changing times.

Journey of Ford Motors India Pvt Ltd:

Ford Motors began its Indian production in 1926, but it had to liquidate the company in 1926 due to severe import restrictions. Ford Motor had a second lease of life due to the liberalization of the economy and change in the industrial policy of the country during the period 1990-2000.

Ford Motors re-entered India in 1995 through a joint venture with Mahindra and Mahindra Ltd. The two auto majors floated the joint venture Mahindra Ford India with 50:50 partnerships. The first product to be launched by the partnership was Ford Escort in 1996. It was the modified European Escort brought into India as CKD (Completely Knocked Down) unit and assembled at Mahindra's Nashik plant. It was retailed at Rs 7.3 lakhs back then.

By 1998 Ford increased its share in the joint venture from 50% to 70% and renamed the company Ford Motor India Pvt Ltd. Ford Ikon was the second product of Ford in India, it was smaller than Escort and came at an entry price of Rs 4.9 lakhs. The company claimed that 70% of its content was localized at the time of launch. It was designed and engineered in Germany and the United Kingdom but built in India, to compete against Maruti Esteem and Fiat Sienna then. It was offered with two engine options, the 1.3L, Rocam 1.6L petrol and Endura 1.8L diesel engine, which were Euro II compliant. It was positioned as a fun vehicle to drive; its

tagline was "Josh Machine". Ikon did deliver that josh to Indians by taking Ford India's sedan segment market share to the highest ever level of 18% in 2000 and became the second best-selling sedan in the country after Hindustan Motors - Ambassador.

In 2005, the success of Ikon encouraged Ford to launch another model designed in Europe and customized for the Indian market namely the Fiesta 1st generation. It was a runaway hit. However, Ford did not enjoy similar success with other products designed in Europe and launched in India, namely Ford Mondeo and Ford Fusion. In the year 2005, Mahindra and Mahindra Ltd sold their entire stake to Ford. The partnership between Ford and Mahindra was mutually beneficial. Ford Motors was able to understand the Indian market, and Mahindra and Mahindra Ltd got exposed to best global practices in manufacturing.

Till 2009, Ford Motor was catering to only 35% of the market as it did not have any model to cater to the mass segment. To fill such a vast gap in its product portfolio, Ford Motor India launched Figo 1st generation. Once again Ford used its tried and tested method of launching a product designed in Europe and customized for India. Figo 1st generation provided much-needed relief to Ford, in terms of numbers, however the going lost steam in 2013 due to a lack of engine options.

In 2013, Ford Motors launched Ecosport, the highest-sold model of Ford Motors in India to date. Ford Ecosport was the model that kickstarted the craze for compact sports utility vehicles (CSUVs) and crossovers among Indian consumers. Ford Ecosport was an instant hit in the market due to factors like the revolutionary and compact design and competitive price. However, Ford Motors India could not sustain the success in the long run due to reasons like long waiting periods, frequent price hikes, lack of proper upgrades, and aggressive launches from the competition like Maruti Suzuki Vitara Brezza, Hyundai Venue, Kia Sonet, Tata Nexon and Nissan Magnite.

The sales register at Ford Motor India Pvt Ltd was kept live by only one product at a time. Ford Ikon from 1997-2005, Ford Fiesta 1st generation from 2005-2009, and Ford Figo 1st generation from 2009 -2013. From 2013-2021, the sales history repeated in the form of Ford Ecosport. To date, Ford Ecosport remains as the most-sold model of Ford Motors in India, Exhibit 4.

What went wrong for Ford in India?

As per the words of an auto journalist, Ford Motors looked at the Indian market with a US outlook. In one of the product launch interviews when the journalists asked for the typical Indian style, "what is the mileage?", the officials were dumb-struck, they could not answer the question and focused only on the power. When the company started its operations in India in 1996, it did not launch a product suited for the Indian market, rather it was a product from its global portfolio which was launched. During the period 1995-2010, when the market was focused on small cars, Ford spent its energy in the sedan segment. Till 2009 Ford did not have a product in the mass market segment, but by the time Figo 1st generation was launched, the market for small cars had matured.

The small car market was dominated by Maruti Suzuki and Hyundai. Ford could not dent the market share of the top 2 players with its only offering in the small car segment, Figo 1st generation. Though Ford launched the 2nd generation of Figo and Figo aspire in 2016, the products did not enthuse the market as they did not have the josh factor associated with a Ford vehicle. During its operational tenure in India, Ford Motors was identified as a one-car company among auto pundits, only one product in its portfolio generated more than 50% of the sales volume at any given point in time from 1997 to 2021. First, it was Ford Ikon followed by Fiesta 1st generation, then it was Figo 1st generation, and finally Ford Ecosport.

Though Ford Motors entered India before Hyundai and had better products than homegrown auto majors like Tata Motors, Mahindra and Mahindra, it did not understand the market thoroughly. Ford always believed in the mantra of taking a global design and tweaking the same for a regional market. It is evident, right from its first product Ford Escort, a model popular in Europe launched in India with minor modifications. The second model to be launched was Ford Ikon which was based on the European Fiesta Mark IV hatchback, designed in Germany and UK. All the other products launched by the company namely Ford Fusion, Ford Mondeo, Ford Figo, Ford Ecosport, and Ford Endeavour were designed in Europe or Brazil and launched in India.

Right from the beginning Ford Motors India Pvt Limited did not get its pricing right. With its first product, the pricing was astronomical for the Indian market. Later customers developed the perception that the cost of maintenance of Ford vehicles is relatively higher than competitors like Maruti Suzuki, Hyundai, and Toyota due to higher service charges and spare parts costs. Ford had to go all out to disprove this claim through its communication with the customers. Exhibit 4.0

As per Vahishta Unwalla, lead analyst at Mumbai-based credit rating agency Care Ratings, if a Car company has to be successful in India, it has to have products at a competitive price range, the running costs lower and there is extensive dealer network that provides satisfactory service.

Mr. Raghavendran was mulling over the thought, of how can one of the largest players in the automobile industry, with its strong brand image, financial might, and strong product portfolio in the global market fumble on the four pillars of the marketing mix in India right from its inception to the exit.

He wondered if and ever Ford returns to India, will it set right the mistakes of the past or continue the same practice of one market offering fits all!

Exhibit 1: Entry of automobile companies in India (1980 - 2000)

S.No	Company	Mode of entry	Year
1	Suzuki	Joint venture with government	1983
2	Mercedes Benz	Joint venture with Telco	1995
3	PAL- Peugot	Joint venture with Premier Automobiles	1995
4	Daewoo Motors	Joint venture with DCM	1995

5	Honda Siel	Joint venture with Shriram	1995
6	Ford Motors	Joint venture with Mahindra & Mahindra	1996
7	General Motors	Joint venture with Hindustan Motors	1996
8	Hyundai	100% subsidary	1996
9	Toyota	Joint venture with Kirloskar	1997

Source: Source: Ramachandran J. (2011), "India Entry Strategy of Auto Majors, Tejas Article, IIM Bangalore," September

Exhibit 2: Sales history of passenger vehicles, utility vehicles and commercial vehicles (1990-2015)

Year	Passenger cars	Utility vehicles	Commercial vehicles
1990	174633	41421	141098
2000	603069	127455	155778
2010	2511493	316926	721973
2020	2773519		717593

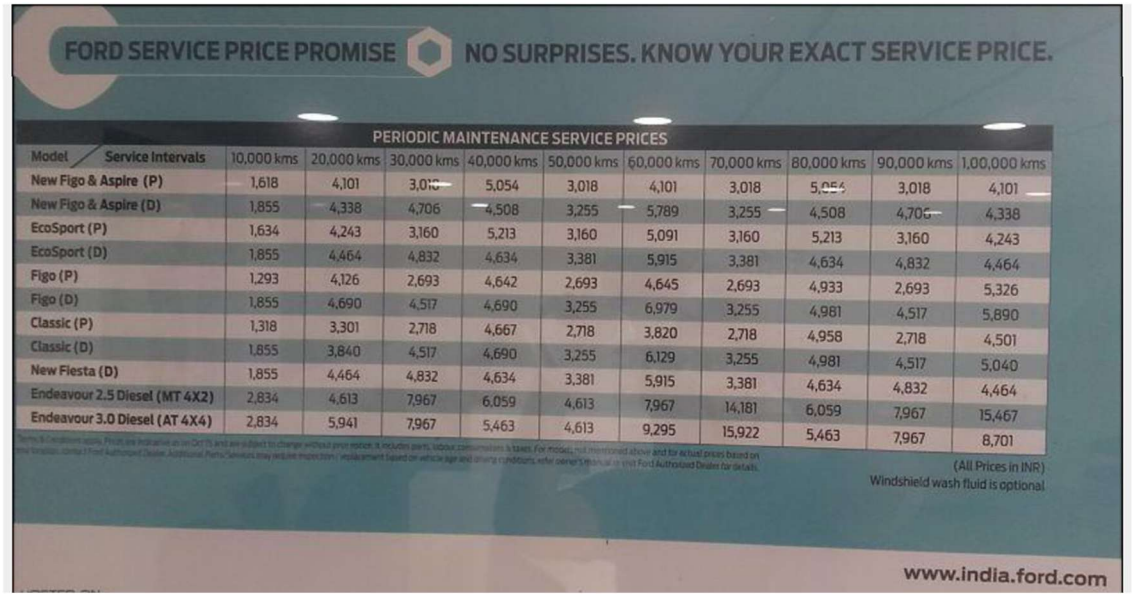
Source: https://www.siam.in/statistics

Exhibit 3: Composition of automobile OEMs based on the type (2020-2021)

S.No	Type of vehicles	Market share(%)
1	Two wheelers	81
2	Three wheelers	3
3	Passenger vehicles	13
4	Commercial vehicles	3
	Total	100

Source: SIAM

Exhibit 4: Service cost for Ford vehicles at various intervals of ownership



FORD SERVICE PRICE PROMISE NO SURPRISES. KNOW YOUR EXACT SERVICE PRICE.

PERIODIC MAINTENANCE SERVICE PRICES

Model / Service Intervals	10,000 kms	20,000 kms	30,000 kms	40,000 kms	50,000 kms	60,000 kms	70,000 kms	80,000 kms	90,000 kms	1,00,000 kms
New Figo & Aspire (P)	1,618	4,101	3,018	5,054	3,018	4,101	3,018	5,054	3,018	4,101
New Figo & Aspire (D)	1,855	4,338	4,706	4,508	3,255	5,789	3,255	4,508	4,706	4,338
EcoSport (P)	1,634	4,243	3,160	5,213	3,160	5,091	3,160	5,213	3,160	4,243
EcoSport (D)	1,855	4,464	4,832	4,634	3,381	5,915	3,381	4,634	4,832	4,464
Figo (P)	1,293	4,126	2,693	4,642	2,693	4,645	2,693	4,933	2,693	5,326
Figo (D)	1,855	4,690	4,517	4,690	3,255	6,979	3,255	4,981	4,517	5,890
Classic (P)	1,318	3,301	2,718	4,667	2,718	3,820	2,718	4,958	2,718	4,501
Classic (D)	1,855	3,840	4,517	4,690	3,255	6,129	3,255	4,981	4,517	5,040
New Fiesta (D)	1,855	4,464	4,832	4,634	3,381	5,915	3,381	4,634	4,832	4,464
Endeavour 2.5 Diesel (MT 4X2)	2,834	4,613	7,967	6,059	4,613	7,967	14,181	6,059	7,967	15,467
Endeavour 3.0 Diesel (AT 4X4)	2,834	5,941	7,967	5,463	4,613	9,295	15,922	5,463	7,967	8,701

(All Prices in INR)
Windshield wash fluid is optional

www.india.ford.com

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