

## **Strategies of Launching Swedish Automobiles - SAAB into Indian Market**

**Visar Rrustemi<sup>1</sup>**

**Abstract:** As domestic markets have become saturated, multinational corporations (MNC) are turning their attention to international markets to increase their market share, revenues and their profits. MNCs activities have become increasingly global in scope, whereby going abroad is crucial if they are to succeed. This process is a challenge because the MNCs needs to overcome the barriers which hinder their entry into the targeted markets. They have to map out an entry strategy and choose the right entry mode. The focus of this paper is on how General Motors (GM) as a MNC can launch the Swedish SAAB brand of cars into India. Our analyses, which cover the period up to 2010, suggest that the best way to penetrate the Indian car market was by choosing the mix between exporting and local assembly as their entry mode. This helped GM to successfully penetrate its products, control investments and increase its competitive strength against domestic and foreign firms within the Indian market. Although recently the SAAB is in difficulty and almost bankrupt, the importance of this paper rests on the lesson how car manufacturers can enter foreign markets, especially in India.

**Keywords:** car industry; SAAB; indian market; entry mode; barriers

**JEL Classification:** D24; L11; M31

### **Methodology**

We apply the positivist and deductive approach, because we see the world as descriptive in which the phenomena can be explained and proved by observation. In order to investigate an event successfully in a positivistic way it is necessary for the researcher to go close and look at the world objectively. Considering the fact that the positivistic viewpoints are idealistic positions, it is very difficult to follow them strictly. However, we tried to stay as objective as possible. The theory is built and explained from single cases. The hypothetical deductive approach is based on using SWOT-analysis by which we highlighted what strengths, weaknesses, opportunities and threats for GM are in order to find a way how to launch SAAB car products into Indian market.<sup>2</sup>

In terms of barriers to entry for SAAB into the Indian market, the qualitative research method of a case study is used. We chose an explanatory case study approach as the strategy for exploring, by which entry mode the GM will overcome the barriers to entry. This approach gives us a general overview regarding our purpose focusing on interviews as the main source for our data collection. Secondary data were collected from different sources. The primary data were obtained through interviews with SAAB personnel who are in charge for international marketing, a total of five executives, in the city of Linköping where the company has its headquarters. The questionnaire used in the interview is attached as annex to this paper.

<sup>1</sup> University of Pristina, Republic of Kosovo, Corresponding author: visar.rrustemi@uni-pr.edu.

<sup>2</sup> The SAAB in 2012 went inoperative in the car manufacturing, probably by focusing more on manufacturing of fighter jets "SAAB Gripen", but this paper aims to leave a lesson as how to launch and sell cars in foreign market if car manufacturing in SAAB is to resume, or any other car producer interested to sell or enter in India.

## **Introduction**

Nowadays, a lot of businesses are going abroad. As long as world markets in principle remain open, there is no way of stopping the spread of global competition (Johansson, 2000). Thus, US corporations have extended their operations throughout Europe, Asia and America. European companies have spread to America, Asia and Asian firms have moved into the America, Europe, and Africa. As a consequence of it, the multinational company's economic activity has become increasingly global in scope. This rapid international spread of multinational companies (MNC)-s has presented both opportunities and challenges to those firms that serve them. The companies, which were not able to handle challenges, were "forced" either to start a merger processes or acquisition processes. One of the proposed advantages of these processes is that the new firms will have the global reach, strength, and scope to meet the needs of their clients, or say it in other words to cope with the fierce competition (Kirsch, Laird & Evans, 2000).

Many Swedish companies going abroad such as: Volvo, Saab, Ikea, Tetra Pack, etc. They are expanding their activities into foreign countries, especially in emerging markets like China, India, Russia and Brazil. Why going to these countries? The primary reason is that these are the world's largest countries by population and land area. More space, more consumers and more raw materials implies a greater opportunity for investment and business. The second reason is the attraction by cheaper labor force and raw materials. Although the per capita income in these countries are significantly lower in than in most developed parts of the world, it does not pose difficulties in selling various products of western origin because there are differences in incomes among the population. The MNCs realize this and target the consumers of higher incomes.

Large emerging markets offer abundant opportunities for MNCs in different economic sectors to derive many benefits and increase the profit. The people of the host country also find their own benefits by having access to various, especially luxury cars. These globalizing trends bring benefits on both sides. From housing and automobiles to home appliances and mobile phones, the consumer boom has not only pervaded the cities but has begun to percolate down to smaller towns.

Sweden relations with India have strengthened since 2000, to include economic and cultural relations. India became Sweden's third most important partner in Asia after China and Japan. The target of Swedish companies to large countries and economies has seen the interest of SAAB into the Indian market. By per capita income, India classifies into poor countries, but as it is a large economy with over 1.2 billion inhabitants, there considerable differences in incomes. The income inequality as measured by Gini Coefficient, in 2010 stood at 33.9, quite significant, smaller than that of China (42.9) and higher than of Japan (World Bank, 2011). This high income inequalities implied that there were considerable number of consumers who could afford luxury goods from western developed countries such as Sweden. For MNCs, such indicators serve as a signal that there is great potential to enter that market. In addition, the Indian economy has been growing at a rate 7% to 8% between 2008-2010. Over the same period, production manufacturing rose by an average of 7% and trade by 7.5% (Ministry of Finance, 2011). The surge in overall economic activities has witnessed a significant growth in automotive industry by becoming one of the largest in the world. Following greater liberalization after 1992, the Indian market has become attractive both in terms of manufacturing and importing cars. Japanese automakers such as Toyota and Suzuki, and Hyundai from South Korea were the first to enter by establishing their plants. Soon, the market attracted 12 large automotive companies, thus making the competition for cars more intense (Piplai, 2001). The competition brought in more manufacturers and importers, but at the same time caused a number of companies in this sector out of business. The first of this kind was the Automobile Products of India that ceased operation in 2002, followed by Escorts Yamaha, Kinetic Honda, Ideal Jawa, and Mopeds India Limited.

Large MNCs such as GM having many subsidiaries in different countries of the world, has established its presence in India as early as 1928. Over the years it has embarked on various investment forms for car manufacturing. Initially, a plant dealt with assembling the Chevrolet cars, later (in 1994)

formed a joint venture with Hindustan Motors to produce Opel, in 2003 began production of Chevrolet, in 2006 constructed another plant for Chevrolet assembly and in 2008 another production plant. A year later GM India announced a joint venture with Shanghai Automotive Industry Corporation of China on a fifty-fifty basis.<sup>1</sup>In all these deals, SAAB as half-owned by GM could be a potential contender of selling cars in India until 2010 when the GM sold the SAAB to a Dutch company Spiker Cars N.V.

## 1. Indian Auto Industry

Until the mid 1990s, the Indian auto sector consisted of just a handful of local companies. However, after the sector opened to foreign direct investment in 1996, global majors moved in. To establish a globally competitive automotive industry in India and to double its contribution to the economy by 2010, the government has compiled the policy. This policy aims to promote integrated, phased, enduring and self-sustained growth of the Indian automotive industry. Also has set up the objectives, which are:

- Exalt the sector as a lever of industrial growth and employment and to achieve a high degree of value addition in the country;
- Promote a globally competitive automotive industry and emerge as a global source for auto components;
- Establish an international hub for manufacturing small, affordable passenger cars and a key center for manufacturing Tractors and Two-wheelers in the world;
- Ensure a balanced transition to open trade at a minimal risk to the Indian economy and local industry;
- Conduce incessant modernization of the industry and facilitate indigenous design, research and development;
- Steer India's software industry into automotive technology;
- Assist development of vehicles propelled by alternate energy sources;
- Development of domestic safety and environmental standards at par with international standards

The Auto Policy has spelt out the direction of growth for the auto sector in India and addresses most concerns of the automobile sector, including:

- Promotion of R&D in the automotive sector to ensure continuous technology up gradation, building better designing capacities to remain competitive;
- impetus to Alternative Fuel Vehicles through appropriate long term fiscal structure to facilitate their acceptance;
- Emphasis on low emission fuel auto technologies and availability of appropriate auto fuels; and
- Encouragement to construction of safer bus/truck bodies - subjecting unorganized sector also to 16% excise duty on body building activity as in case of OEMs;
- The Auto Policy allows automatic approval for foreign equity investment up to 100% in the automotive sector and does not lay down any minimum investment criteria.

<sup>1</sup>Bradsher, Keith (2009), "G.M. Expects Asia Deals to Rise \$400 million", the New York Times, December 4, 2009.

## 2. Potential Competitors

Most MNC-s began their operations in India as joint ventures with local partners. Examples include Suzuki, GM, Toyota, and Ford. With the exception of Suzuki, these joint ventures have become fully owned subsidiaries of the foreign partners. In all these cases, the local partners have just not had enough resources to chip in whenever the equity base has been expanded. Consequently, the foreign partners have pumped in the additional capital and raised their equity stakes. MNC-s need to carefully plan their entry into emerging markets. Early commitment to a market often results in first mover advantages that are difficult to replicate. On the other hand, later entrants have the opportunity to learn from the mistakes of the first entrant. The Indian car market offers useful lessons in this context. In the 1990s, the Indian Government removed several restrictions in a bid to attract foreign investors into the automobile industry. Among the first to enter was Daewoo of South Korea, with its model Cielo, targeted at the upper end of the market. Other MNC-s such as Ford and General Motors also entered the Indian market, followed by Hyundai, Honda, Toyota and Volkswagen. In this case, we shall examine the strategies of some of the major players in Indian car market and how successful they have been till date.

### Maruti Udyog Limited

For a long time since the country's independence in 1947, India had a protected market, divided between two players, Hindustan Motors and Premier Automobiles. (A third company, Standard Motors remained a marginal player for several years before being wound up). Customers had little choice in what was an extreme version of a sellers' market. In the 1980s, India's top politicians felt the need to produce a small car which would be within the buying reach of the Indian middle class. The obvious place to shop for technology was Japan which had developed world class capabilities in small cars by this time. It was not Toyota or Nissan or Honda, the three largest players in Japan, with whom the Indian Government tied up, but Suzuki, a much smaller company. Suzuki's small car capabilities probably influenced this decision. Suzuki grabbed the opportunity and formed a joint venture with the Indian Government, which was called Maruti Udyog Ltd (MUL). It decided to launch a small car with an engine capacity of 800 cc, targeted at the masses. Suzuki showed its commitment by setting up a full-fledged manufacturing facility at Gurgaon on the outskirts of the Indian capital, New Delhi ([www.autocarindia.com](http://www.autocarindia.com)). Thanks to the various concessions offered by the Indian government, the car, popularly known as the Maruti 800, was priced attractively. Subsequently, in spite of price hikes from time to time, it remained within the reach of India's upper middle class and became a runaway success. Later, MUL also launched a more up-market model, the Zen, and followed it up with a 1000 cc engine model for the luxury segment. Besides these vehicles, MUL also launched two utility vehicles, the Omni and the Gypsy. All these models became market leaders in their respective segments with the possible exception of the Gypsy, which faced intense competition from local players such as Mahindra & Mahindra. Maruti Suzuki, incorporated in 1981, is the country's largest passenger car manufacturer with a market share of 60% in FY04 in the domestic market. While Suzuki, Japan holds a 54.2% equity stake in the company, the government of India has brought down its equity stake to 20.8% through two phases of disinvestment. After remaining a near monopoly till 1992, the entry of other multinationals and the emergence of domestic competition have resulted in the company losing market share. However, the company has been able to steady its share in the Indian passenger car segment through aggressive capacity expansion and new product introductions.

Even though MUL's market share has fallen sharply in recent times, some analysts feel that the company's strengths should not be underestimated. According to consultant, Arindam Bhattacharya of A.T. Kearney, "As long as Maruti's own growth targets are being met, it doesn't really matter whether the market share is falling. With annual sales of 406,574 vehicles MUL's might is still formidable. As Bhattacharya argues, "The Maruti 800 is a great product. No other car in the world can

match its functionality and price even with the high duty incidence of 60 per cent in India. There is need for such a car, which competes not with other cars but two wheelers.”

### **Hyundai**

Unlike most other MNC-s, Hyundai of South Korea decided to enter India with its small car model, Santro, which it priced attractively at about \$7000. Hyundai chose to set up a fully owned subsidiary and hired some of the most reputed executives in the Indian automotive industry ([www.autocarindia.com](http://www.autocarindia.com)). Hyundai also invested heavily in a modern car plant near the city of Madras, in the southern part of India. The facility can manufacture 130,000 engines, transmission sets and components per annum. According to Business India1, “What makes HMI’s (Hyundai Motor India) progress even more impressive is that the Sriperambadur plant is not another knocked down (KD) operation but an integrated manufacturing facility. The Santros that will roll out of this plant will be manufactured from day one and not merely assembled. This is a historic achievement. No company has begun operations in this manner, not even Maruti Udyog, which initially imported CKD kits for the Maruti 800. The very essence of Hyundai’s strategy is to localize heavily from day one to give it a very early cost advantage, the number one priority in this highly price sensitive market.” The Santro has been a major success. Though not very elegant looking, the car has enough leg and head room. Encouraged by the success of the Santro, Hyundai has recently launched the up market Accent model. Recently, Hyundai exported a big consignment of 760 cars (350 units of Santro and 410 of Accent) to Algeria. Hyundai has also announced plans to export engine and transmission sets to the parent company in Korea and to Turkey. Hyundai’s performance in India has not been entirely blemishing less. The company did not bring its latest engine technology to India in the process; the company’s image took a beating. Hyundai also miscalculated the demand for the Santro. When demand peaked, customers had to wait for three months. Hyundai has now embarked on a capacity expansion project at its plant in Sriperambadur in Chennai ([www.autocarindia.com](http://www.autocarindia.com)). A major worry for Hyundai is that it has just one small car in its stable. Hyundai is pinning its hopes on luxury models such as the Sonata, but as the company’s senior executives themselves admit, such models are unlikely to sell more than 250 units per month. Hyundai is also vulnerable because of its relatively small size, when compared to global majors such as Ford, General Motors, Toyota, Daimler Chrysler, Volkswagen and Honda.

### **Telco**

Founded in 1945, the Tata Engineering and Locomotive Company (Telco) is one of the leading players in the Indian automobile industry. In its early years, Telco manufactured only commercial vehicles, through a technical collaboration with Mercedes Benz of Germany. Starting with the 1980s, Telco has moved into light commercial vehicles, pick-up trucks, multi-utility vehicles, large cars and finally, small cars. The Tata Mobile pick-up truck launched in 1988 was probably a turning point in Telco’s history. The model failed to build volumes, but gave Telco engineers confidence in their design capabilities. Telco then launched its big cars, Tata Sierra (1991) and Tata Estate (1992). Both these cars have been more or less phased out, as Telco decided to take a plunge into the mass market small car segment-I. The star in Telco’s portfolio today is the small car, Indica, designed in Italy, but manufactured in India as an almost completely indigenous effort. The car has a distinctive look and sufficient space but its engines can probably be improved. At the time of launch, the India was plagued by quality problems. Telco engineers, however, ironed these out in quick time. Telco seems to be well ahead of the other players in the industry in its e-business initiatives. It has created a portal, [vcm.com](http://vcm.com), where business partners can log in with their unique passwords. Enquiries can be floated electronically to qualified vendors, quotations received and orders processed through the Internet. As soon as a vendor supplies goods, Telco’s systems and the vendor’s books are updated. Information regarding acceptance of a consignment is also conveyed electronically. Telco is attempting to integrate its internal ERP system with the web so that production schedules can be given online for the different vendors.

**Fiat**

The Italian carmaker has maintained a presence in India since the 1950s through its tie up with the Walchands, a leading Indian business group. In the recent past, Fiat has wrested management control from the local business group and decided to play a more active role. Fiat has been one of the few MNCs to launch quite early on, a reasonably priced small car, the Uno. Fiat is still a marginal player in the Indian car market. Faced with declining sales in the last one year, Fiat has decided to bring in a senior official, Raul Picello from its Turin (Italy) headquarters.

**Ford**

Ford entered India through a 50-50 joint venture with the local Mahindra & Mahindra group. Now the Indian unit has become a wholly owned subsidiary of Ford. The entry model, which Ford chose was Escort, priced in the range Rs. 7 - 8 lakhs. While it established Ford's reputation for quality, volumes failed to pick up because of the high price. Ford's head of Indian operations admitted in an interview, "Our Escort which in most markets is a family car is an ultra luxury car in India. So, we have to change our mindset." Ford subsequently decided to offer a more reasonably priced model, the Icon, positioning it as a model specifically developed for India ([www.automartindia.com](http://www.automartindia.com)). The Icon has fared better than the Escort, Ford is, however, looking at the Indian market seriously. Meanwhile, Ford has announced plans to strengthen its dealer network. Ford CEO, Jacques Nasser recently said in an interview, "There are many options as we move in India and they may include a smaller vehicle. And they may not. One of the things that I believe strongly is that we shouldn't be looking at what others are doing and emulating them. We should look for what is right for the market in the long term." As of now, it looks unlikely that Ford will enter into a head to head clash with other players in the small car segment. Ford's Asia Pacific operations Chief, Vaughn A Koshkarian, recently remarked that Ford is not looking at a very low priced car. He feels that, with the way it has built the brand in India and created a new segment through Ikon. Ford does not need to go into the lower end of the market.

**Toyota**

Toyota is Japan's largest car manufacturer and one of the top three automobile companies in the world. Toyota officials explain that it makes sense to gain experience and understand the Indian market before launching a conventional passenger car. Toyota also argues that a shakeout is likely in the Indian market and that it would prefer to wait for the process to be completed before making heavy investments. Toyota executives point out that in both Indonesia and Thailand, it had made strategic late entries but by 1998 – 99 had emerged as the market leader. Toyota has entered India rather late it will have to work hard to become a significant player.

**Honda**

Honda, which has a tremendous reputation for quality and customer satisfaction, entered India with its City model, positioned as a low cost car for Asia. The City has powerful engines and delivers good performance. Honda sources kits from Thailand for assembly in India. Though it has cut costs by providing a functional, no frills interior and the car remains priced beyond the reach of most Indian customers. Honda also launched one of its most popular models in the world, the Accord ([www.automotive.frost.com](http://www.automotive.frost.com)).

**Volkswagen**

Another cautious entrant into the Indian car market is through its subsidiary, Skoda, which has invested in a plant with a capacity of 10,000 cars. The company has indicated that it will not increase this capacity for the next five years. But Skoda depends heavily on imports of key components. Skoda officials explain that the project will be implemented in a "slow start fast growth" fashion.

### 3. The Company

In order to get some insights about SAAB and its operations our first interview was conducted with Mr. Jim Nilsson – Vice President of SAAB. This interview took place at Linköping, where the headquarters of SAAB is located. He has been working with SAAB in various departments for the past eight years.. While we interviewed him, we figured out that when SAAB was founded in 1937, its primary aim was to meet the need for a domestic military aircraft industry in Sweden. Therefore, the core business of SAAB has been manufacturing of air defense systems including Missiles and Fighter Jets. Later on when the Swedish market for the defense products declined SAAB decided to diversify into other segments such as production of cars and heavy trucks to keep up the growth momentum. Hence, in 1968 SAAB ventured into production of cars and heavy trucks. After a fairly successful venture, there was again a shift in the policies of the management whereby they wanted to concentrate more on the core business i.e. manufacturing of defense products. Therefore, in 1990 fifty percent of the SAAB passenger car segment was sold to General Motors. Further in 2000 GM managed to buy the remaining stake as well. General Motors Corporation (General Motors or GM), incorporated in 1916, has two core businesses, which constitute its operating segments: a) Automotive and Other Operations (Auto and Other) and b) Financing and Insurance Operations (FIO). General Motors (GM) has steered around competitors to remain the world's #1 maker of cars and trucks, with brands such as Buick, Cadillac, Chevrolet, GMC, Pontiac, SAAB, and Saturn. The main competitors of GM around world include majors such as Ford Motor Company, DaimlerChrysler AG (DaimlerChrysler), Toyota Corporation (Toyota), Nissan Motor Corporation, Ltd., Honda Motor Company, Ltd., Mazda Motor Corporation, Mitsubishi Motors Corporation, Volkswagen A.G. (Volkswagen), Hyundai Motor Company, Ltd. (Hyundai) and Bayerische Motoren Werke AG (BMW). The annual production of GM was roughly around 8.3 Million Vehicles. General Motors entered India with collaboration with C.K. Birla Group of Companies in the year 1994. GM invested about 100 million dollars at its state of art manufacturing plant located at Halol, 40 km north of Vadodara in Gujarat in the western part of India.

As matter of fact now, GM owns SAAB. Thus, in order to get more accurate information about SAAB brand of cars under umbrella of GM, the second interview we conducted with the Global Development Manager Mr. Pontus Haggstrom in Gothenburg where the GM headquarter for Sweden territory is located. He has been working with SAAB since 1992. He was very helpful in all aspects and was very patient enough to answer all our questions. He provided us much valuable information. In the beginning of the interview we were curious to know what were the reasons and benefits for SAAB during acquisition process by GM. According to him, the acquisition of SAAB by GM has provided SAAB the much-needed access to the global processing systems and global engineering processes. He explained that they were able to share each others knowledge and technology for the benefit of the other. About expansion of SAAB brand of cars through the world, Mr. Pontus Haggstrom replied, "...Today, SAAB brand of cars are sold in over 60 countries..." Further on he told us that SAAB brand of cars have a market share of about nine percent in the Swedish market. As matter of fact more importantly in the emerging markets the premium segment is growing. Whereas he said that GM's entry strategy into foreign markets has been through selling luxury cars. He went on saying that the most important market for GM has always been the US.

Answering to our question about information relating to Indian policy and conditions of doing business there, he replied "...We have also done some researches on the Indian market and are looking for more efficient channel sales partners who will be able to sell at least 500 cars per year to cover the basic investments, but we still feel that we do not know to much about this market...". He also says that India has high tax rates and supports more the domestic production. During the interview he enlightened that the most important factor to consider before entering India is the financial factors and the efficiency distribution channels because they are not in favor of additional investments. He further says production is not of priority in India for SAAB and they would like to import into the Indian market.

Responding our question dealing with entry barriers, we figured out that his company is not very much aware of the type of barriers that they would face in the Indian market. But they would like know more about these barriers because according to him, besides they have done some researches in India they do not know too much about policy, conditions and barriers which most likely they will face when launching SAAB brand of cars to India. Also he points out that based on his opinion the one alternative of overcoming these barriers is by adopting a competitive pricing strategy.

Besides that one of our question was about which segment GM is interested to supply with SAAB brand of cars. Mr. Haggstrom explained that they are interested in importing only the luxury cars because SAAB cars are expensive and also the existing markets for low priced cars are too competitive to concentrate on. According to him SAAB cars cannot be compared with the Mercedes or BMW because SAAB product communicates a feeling of being simple and further on cheaper when compared to Mercedes or BMW even though it offers the same value. They further want to use the brand value of GM to create a competitive advantage in the market over their existing competitors. Pontus also explained that the strength of the existing competitors is the existence of local production unit and their brands are already well known and widely accepted in the Indian market. But initially they would be happy to sell 130,000 cars in the first few years and further achieve a 15 percent growth to achieve their target of 200,000 cars per year. He also says that in the future India can also be used as a low cost production base to export cars to other Asian and European countries if the government has a tax benefit system like China and Thailand. Finally he told us that is very curious and interesting to know where the Indian market will head in 5 years from now. His company has already done a review of the Chinese market and feels that it will grow by 20 percent. Based on this review he assumes that for the Indian market the growing figures might be the same with the Chinese figures of growing.

#### **4. Perceptions of Entry barriers to the Indian Market**

The new policy placed automotive components under open general license, but restricted import of cars and automotive vehicles in Completely Built Unit (CBU) form or in Completely Knocked Down (CKD) or in Semi Knocked Down (SKD) condition. Car manufacturing units were issued licenses to import components in CKD or SKD form only on executing a Memorandum of Understanding (MOU) with the Director General Foreign Trade (DGFT). The aim is to establish actual production of cars and not merely assemble vehicles, further the main entry barriers are:

- Bring in a minimum foreign equity of US \$ 50 Million if a joint venture involved majority foreign equity ownership;
- Indigenize components up to a minimum of 50% in the third and 70% in the fifth year or earlier from the date of clearance of the first lot of imports. Thereafter the MOU and import licensing will abate;
- Neutralize foreign exchange outgo on imports (CIF) by export of cars, auto components etc. (FOB). This obligation was to commence from the third year of start of production and to be fulfilled during the currency of the MOU. From the fourth year imports were to be regulated in relation to the exports made in the previous year.

#### **5. Analysis and Discussion**

In this section we summarize and analyze the entry barriers which most likely GM will face when launching SAAB brand of cars into Indian market. SWOT-analysis is a strategic planning tool, which enables managers to formulate competitive strategies in line with the requirements of their business environment. It includes strengths, weaknesses, opportunities, and threats according to the matrix below.

**Table 1. SWOT-matrix**

<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>a) patents</li> <li>b) strong brand name</li> <li>c) low cost structure</li> <li>d) good reputation among customers etc.</li> </ul>	<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>a) lack of patent protection</li> <li>b) a weak brand name</li> <li>c) high cost structure</li> <li>d) poor reputation among customers etc.</li> </ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>a) an unfilled customer need</li> <li>b) arrival of new technologies</li> <li>c) loosening of regulations</li> <li>d) removal of international trade barriers etc.</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>a) shifts of consumer tastes away from the firm's products</li> <li>b) emergence of substitute products</li> <li>c) new regulations</li> <li>d) increased trade barriers etc.</li> </ul>

According to Collet, SWOT-analysis is a way to analyze a company's or a department's position in the market in relation to its competitors (Collet, 1999). The goal is to identify all major factors affecting competitiveness before crafting a business strategy. SWOT-analysis is concerned with the analysis of an organization's internal and external environment with the aim of identifying internal strengths in order to take advantage of its external opportunities and avoid external (and possible internal) threats, while addressing its weaknesses (Panagiotou, 2003).

The industry encompasses commercial vehicles, multi-utility vehicles, passenger cars, two wheelers, three wheelers, tractors and auto components. There are in place 15 manufacturers of cars and multi utility vehicles, 9 of commercial vehicles, 14 of Two/Three Wheelers and 10 of Tractors besides 5 of engines. It employs 4, 50,000 people directly and 100, 00,000 people indirectly and is now inhabited by global majors in keen contention.

Sales of passenger vehicles crossed the million-figure mark (1,044,597 units) in 2004 with a 24% growth, making India the fastest-growing in this segment. The growth rate of other segments was equally impressive. Sales of commercial vehicles grew at 28 percent, two-wheelers at 17 percent, three-wheelers at 13 percent and exports went up by 36 percent.

Based on our theoretical part and findings we created table whereby we classify the entry barriers, which SAAB will face.

**Table 2. Barriers to entry**

<b>Entry Barriers</b>	<b>SAAB</b>
Import Tariff	Yes
Protective & Revenue Tariff	Yes
Special Duties & Variable Duties	Yes
Distribution & Consumption Tax	No
<b>Non Tariff Barriers</b>	
Government Participation	No
Customs and Entry Procedures	Yes
Product requirements	Yes
Quotas	No
Financial Controls	No

GM will most likely face the import tariff, protective & revenue tariff and special duties & variable duties in the form of basic customs duty, additional customs duty and special additional duty. From our findings from the interview with Mr. Pontuus, GM is more in favor of launching SAAB brand of cars through the completely built unit route. This means the car will be completely built abroad and imported as a finished product without the tires and batteries. The problem GM is most likely to face when it adopts this mode of entry is the very high import tariffs. India protects its local players and other existing car manufacturers by laying down an import duty of 119.65 percent. This is going to increase the cost of the product significantly and is further going to affect the much needed volumes needed for growth.

Further in non-tariff barriers, GM will have to meet the customs entry procedures and product requirements. The Indian customs is known for its inefficient working structure and laying out time-

consuming entry formalities, which need to be overcome by GM. Hence, it is going to be difficult to launch the products on time and further on meet the delivery expectations of the Indian Customers.

Secondly, GM has to overcome the changes imposed on the product requirements from time to time as and when imposed by the Customs requirements. We figured out that GM wants to enter with a diversification strategy. Besides that, it wants to launch its products through its existing dealer networks and through new efficient dealerships as well. The market diversification strategy is based on a relatively equal spread of resources across a great number of markets. We feel that this is right as this not only helps in diversifying but also saves cost and time significantly when launching a new product. India being one of the top emerging markets has a very high demand for cars and this will help to capitalize on the new interest among the Indian customers to try a new product. By using diversification strategy GM will gain flexibility, a reduced concentration and a way to capitalize rapidly on some significant competitive advantage. Further by focusing on diversification strategy they can create higher market shares which mean stronger position in the market and less advertising expenditures.

Although it has a good network of presence through assembly and production lines, GM wants to use exporting as its mode of entry. Nowadays, various entry modes are available to companies that wish to take advantage of foreign market opportunities. As we know so far, each entry mode has its own advantages and disadvantages. As a matter of fact, the effect on entry mode on the degree to which the firm can exercise control over its local marketing effort is not simple and direct. It is important to distinguish between the question of where and by whom the product or service is produced and the way the marketing is managed. But in this scenario, SAAB is going to be manufactured by its production units across the globe. That means they want the simplest and the easiest way to meet the needs of Indian market. This approach has very less effect on the day today operations of the firm and the risks involved maybe very low than the other alternatives. But choosing the above entry mode may not be the best option given the high import tax rates in India. But SAAB argues that it wants to use its existing production capacities around the world to fulfill its demand for SAAB cars in India and does not want to invest further to equip its production unit in India to manufacture SAAB brand of cars. Even though this is an argument worth considering, we have to look at the cost factor as well. As matter of fact importing cars into India will push up the price significantly and may result in launching of products, which are not competitive. GM deliberately wants to overlook their other modes of entry like Licensing, Strategic alliances and FDI's because of the cost factor associated.

**5.1. SWOT Analysis**

Here we summarize our empirical findings based on the framework of SWOT-analyses. Hence, we remarked what can be classified as internal factor (strength, weakness), and external factor (opportunities and threats) that will affect GM while launching the SAAB brand of cars into Indian market.

**Table 3. Findings about SWOT**

<p><b>Strengths</b>                  Technological Skills                  Brand Value                  Distribution Channels                  Quality</p>	<p><b>Weaknesses</b>                  Low flexibility for additional Investment                  Over Capacity                  Lack of Market Information</p>
<p><b>Opportunities</b>                  Changing Customer Tastes                  High Market Growth                  Change in population age structure</p>	<p><b>Threats</b>                  High Domestic Competition                  Low Prices                  High Tax Structures</p>

Turning to the analysis of strengths and weaknesses for the globalizing company it is useful to distinguish between advantages that are specific to the firm and those advantages that a firm possesses in the target country it wish to expand. When we analyze our empirical findings using SWOT, we found out that SAAB has the following strengths. SAAB is known for producing high technology cars. This has further improved when GM acquired SAAB. According to Pontus *the main benefit of*

*this process is access to global engineering processes.* In fact SAAB stands Swedish Airplanes Limited. Further on it has also created a very good brand value for its cars by adding value to its customers. The distribution system of GM in India is also quite strong with a wide dealer network. Its distribution channels and service centers are spread in more than 45 cities all over India. When we analyzed the weakness, we find that it also suffers from over capacity. Hence, GM primarily wants to use its existing capacities to satisfy the demands emerged from Indian market. Due to this we found that GM is not in favor of additional investments. It also lacks market information on the duty structures and regulations laid down by the government. When we look at the external factors affecting GM's prospects of selling SAAB brand of cars in India, we found that very high growth rate and changing preferences of customer taste can serve as an opportunity for GM to launch its new brand. The external threats are huge domestic competition and as a result the market is facing pricing pressures to drive its market share. Further the tax structure for imported cars is also very high. Further on to give the reader a clearer picture, we present our own matrix below derived from SWOT and our findings which shows the willingness of GM to launch SAAB into Indian market and what barriers most likely will face during this process.

### **Conclusion**

With the internal and external factors taken into account, we have to suggest a way by which GM has protection from trade barriers such as high import cost. As we have already seen that importing as completely built units into India drives up the cost significantly and makes the product uncompetitive. We feel that GM is at a disadvantage to some extent when it chooses export mode as its entry strategy. GM will have to shell out 119.65 percent as duty for its cars.

Once the company starts to globalize its products, the company will gradually change its entry mode decisions in a fairly predictable fashion. Increasingly, it will choose entry modes that provide greater control over foreign marketing operations. But to gain greater control over pricing and delivery schedules, GM has to invest on ramping up its production capacities so that the factory is made suitable to manufacture SAAB cars. At the same time investing on additional production capacities to manufacture SAAB cars within India may make the company suffer from high over production, as the company is already facing problems with heavy over capacity in the European and other Asian countries for its SAAB production plants which it is not able to run to full capacity due to decrease in demand for SAAB cars.

When we look at the competitors, we see that most of them have better control over pricing as they have a fairly large amount of local content in the car which helps in reduction of prices. For example when we look at companies like Ford, Suzuki and Hyundai, these companies are utilizing their production bases to roll out luxury cars in India. Further the policy of the Indian government says that the company selling its cars in India should achieve 50 percent indigenization within 3 years from the date of entering India and further on 70 percent indigenization within 7 years of entering India. Hence at some point of time it becomes a necessity rather than choice for the company to set up its production units.

Further on the company should also attain foreign exchange neutrality by export of cars, components and related software within seven years. Hence more the company imports, the more the burden is to export. Further on having the right model at the right price will surely help SAAB attain its sales target of 200,000 cars per year because the market is becoming more and more attractive with every passing day.

As we have seen in our empirical part the companies have sold one million cars in India in the last one-year and the demand is increasing steadily year on year. This should be a driving factor for SAAB to go in for additional investment initially. The markets are becoming more and more competitive and the companies are facing a pricing pressure to capture market share. Given these situations, we feel that only a company, which has control over price, supply and distribution, can be

successful in this competitive environment. Further on we have also come to a conclusion that SAAB should also concentrate on the mid size segment because the huge Indian middle class population is becoming an attractive target for companies. The entry of numerous car companies has brought along with it a massive increase in the availability of cheap finance for the Indian consumer. The purchasing power of the Indian middle class population is increasing day by day due to availability of easy finance and high growth in employment. So it's not new for a population of this stature to go in for a mid size car. Further in the automobile industry, economies of scale act as a significant entry barrier since it is a capital-intensive industry. Since the economy segment cars are expected to drive volume growth in India in the coming years, it is extremely important for a manufacturer to have a model in this segment to reduce its cost per unit. Hence we conclude that the key to success in the Indian car market will be offering good-quality cars in various segments at a fair price, run innovative marketing campaigns to attract Indian consumers, and offer excellent after-sales service.

### References

- Bradsher, Keith (2009). *G.M. Expects Asia Deals to Rise \$400 million*. The New York Times, December 4.
- Clark, Gregory (1998). Technology, Globalization and Economic Performance. *The Journal of Economic History*, Vol. 58, No. 4, pp. 1173-1175.
- Collet, Starcy (1999). SWOT Analysis. *The Journal of Business Planning Management*, Vol. 33, No. 29, pp. 29-58.
- Johansson, Johny K. (2000). *Global Marketing*. USA: McGraw-Hill.
- Kirsch, Robert; Laird, Keneth L. & Evans, Thomas G. (2000). The Entry of International CPA Firms into Emerging Markets: Motivational Factors and Growth Strategies. *The International Journal of Accounting*, Vol. 35, No. 1, pp. 99-119.
- Ministry of Finance (2011). *Economic Survey 2010*. New Delhi: Ministry of Finance, Government of India.
- Panagiotou, George (2003). Bringing SWOT into focus. *Business Strategy Review*, Vol. 14, No. 2, pp. 8-10.
- Piplai, Tapas (2001-07-28). Automobile Industry: Shifting Strategic Focus. *Economic and Political Weekly*, Mumbai, India: Sameeksha Trust, Vol 36, No. 30, pp. 2892-2897.
- Porter, Michael E. (1980). *Competitive Strategy-Techniques for Analyzing Industries and Competitors*. New York: Macmillan.
- World Bank (2011). *GNI Index: Country Ranking*. Washington: World Bank, Development Research Group.

**ANNEX: Questionnaire for interview with SAAB personnel**

1. What is your name, surname and designation in the company?
2. How long have you been working with this company?
3. When was the company established?
4. Do you think by acquisition with General Motors-GM provides SAAB with financial strength, why?
5. How many employees presently work in the organization?
6. In how many countries do you operate at the moment?
7. What is your market share in Sweden market?
8. Why have you expanded operations through different countries?
9. What is your entering strategy into foreign countries at the beginning of entering (concentration or diversification) why?
10. Have you found it difficult to get into foreign markets?
11. Which according to you is your most important market?
12. What are your plans for emerging markets like India?
13. What according to you is the most important factor to consider before entering India?
14. Which entry mode will you use entering the Indian market (export, licensing, strategic alliances or foreign direct investment FDI) why?
15. What about revenues and costs derived by choosing an entry mode? Because each mode has its advantages and disadvantages as well?
16. If you are planning to enter as a fully owned subsidiary company, will you enter India by establishing production units or assembly lines?
17. Do you think the current policies of the Indian Government are favorable to you?
18. What are the likely barriers you think you will face when you enter Indian market? Do you think you most likely you will face tariff barriers than no tariff or vice versa?
19. How prepared is your company to face these barriers?
20. Which segment do you want to enter? Luxury segment or mid size segment or economy segment; why?
21. What according to you are SAAB advantages over its competitors in same industry (car industry).
22. How do you plan to create a competitive advantage in Indian market?
23. What do you think is the strength of your current competitors in the Indian market?
24. What is the market share you want to capture in the next 5 years?
25. Do you think India can be a low cost production base for export of cars to other Asian and European markets?
26. What is the size of investment that you have planned for the Indian market?
27. What do you think about the Government policy of mandatory export requirements for facilitating easy imports?
- 28.** Where do you see the Indian automobile market heading in 5 years from now?