CONCURRENT EVALUATION

MBA - SEMISTER IV

INTERNATIONAL BUSINESS SPECIALISATION

(404) Global Trade and Logistics Management

Faculty Name: Prof. Dr. Manisha Jagtap

Important Instructions:

1. The subject is evaluated on the basis of the following component

Component No	Component	Marks	Submission Instructions	Submission Date
1	Creating a Quiz	50	Name your file as : **GT&LM404IB < Student Full Name>** File Format: **MS Excel** Send it on mailid: **drmanishajagtapdimr@gmail.com**	**20th August 2022**
2	Case study Analysis	50	**Write on Assignment Sheets**	**20th August 2022**

Component No	Create A Quiz	Submission Date :
1		20th August 2022

1. Students are required to create a quiz for all **the 5 units** of **(404) Global Trade and Logistics Management**
2. For each unit students need to draft **20 Multiple choice questions**
3. Excel sheet has to be created with the columns shown below. One excel sheet for all **100 questions.**
4. **Do not write anything irrelevant as it will lead to negative marking**

Q. NO	Question Text	Option 1 (A)	Option 2 (B)	Option 3 (C)	Option 4 (D)	Answer Key	Unit No. & Topic Title	Name of the Source Book Referred & Page number	Other sources referred and link of the source

Submission Instructions:

- Name your file as : **GT&LM404IB < Student Full Name>**
  - File Format: **MS Excel**

Send it on mailid: **drmanishajagtapdimr@gmail.com**

Component No	Case study Analysis
2	

Students are required to solve all the 5 cases with proper reading the concepts. Scrutinize the enclosed case study & answer the questions at the end of the case study. Write the analysis in Assignment sheets

CASE 1: GILLETTE TARGETS EMERGING MARKETS

As it entered the twenty-first century, Gillette faced a difficult choice. Should it continue to target emerging markets or not? Its strategy to move aggressively into markets in the developing world and the former Soviet bloc had been hailed as a success only a few years before. Recent poor earnings, however, had management considering whether this choice had been a wise one.

The Boston-based firm was founded in 1895 and is still best known for its original products, razors and razor blades. By the end of the twentieth century, Gillette had grown into a global corporation that marketed. its products in 200 countries and employed 44,000 people worldwide. About 1.2 billion people use Gillette products every day. Its sales are about equally distributed among the United States (30 per cent), Western Europe (35 per cent), and the rest of the world (35 per cent).

As markets matured in developing countries, Gillette sought growth through product diversification, moving into lines such as home permanents, disposable lighters, ballpoint pens, and batteries. In the mid-1990s, Gillette targeted several key emerging markets for growth. Among them were Russia, China, India and Poland.

Russia was already a success story. Gillette had formed a Russian joint venture in St.Petersburg and within 3 years Russia had become Gillette's third-largest blade market.

Gillette's move into the Czech Republic had prospered as well and in 1995 Gillette bought Astra, a 10caI; privately-owned razor blade company. Astra gave Gillette expanded brand presence in the Czech market. Astra's relatively strong position in export markets ~n East Europe, Africa and Southeast Asia proved a boon to Gillette in those markets as well. Jus.t as in other markets in the developing world, 70 per cent of East European blade .consumers used the older, lower-tech double-edge blade. In more developed markets, consumers appreciated product innovation and the shaving market had moved to more high-tech systems such as Gillettes Sensor.)

Then disaster struck. A financial crisis that began in Thailand quickly spread across Asia. Many wary investors responded by pulling money out of other emerging markets as well as depressing economies across the globe. Bad economies meant slower sales for Gillette, especially in Asia, Russia and Latin America. In Russia, wholesalers could not afford to buy Gillette products. Consequently, these products disappeared from retail stores and Gillette's Russian sales plummeted 80 per cent in a single month. Gillette found it could not meet its projected annual profit growth of 15-20 per cent. The price of Gillette shares tumbled 36 per cent in 6 months. To save money, Gillette planned to close 14 factories and layoff 10 per cent of its workforce.

Despite its recent bad experience in developing countries and in the former Soviet bloc, Gillette was still moving ahead with plant expansion plans in Russia and Argentina that would total $64 million. Some even suggested that this was a good time to expand in the emerging markets by buying up smaller competitors that had been hurt even worse by the crises. Meanwhile, back in the developed world, another large global consumer products firm, Unilever, announced that it would be entering the razor market.

Discussion Questions

1. Why do companies such as Gillette target emerging markets? Do you agree with this strategy?
2. What are the dangers to Gillette of targeting emerging markets?
3. Why would local, privately-owned companies like Astra want to sell out to companies like Gillette why are such companies' attractive acquisitions to multinational firms?
4. What global strategy would you suggest for a company such as Gillette? Explain your choice

CASE 2: THE LOCALIZATION OF GLOBAL COMPANIES

Korean Experience Countries tend to be more concerned about large companies than small ones because of their greater potential impact on national economic and political objectives. But not all companies operating internationally are large. In fact, the number of new MNEs is growing at about 4,000 to 5,000 per year. These are generally smaller companies with smal1er foreign investments. Generally, they have to do less to justify their entry and operations. Because they are assumed to have less impact on host societies, countries often treat their entries differently. Further, many LDC governments prefer the entry of smaller companies because they may be more willing to yield to host -country wishes, increase c01npetition because of their numbers, and supply smaller-scale technology more suited to LDC needs. Internationalization is viewed as a process leading to the outcome of a competitive environment that in turn induces efficiency in production and optimality in resource allocation. A few economists refer to internationalization as a surrogate to indicate the level of cross-border production by Multi-National

Corporations (MNCs) and their network of affiliates, subcontractors and partners. Yet another viewpoint analyses the different dimensions of internationalization ascribing the internationalization of corporate strategies, in particular, their commitment to competition as well as the internationalization of consumer and financial markets, the diminished role of national governments in designing the rules for international governance, and so on as a set of characteristics describing the different dimensions of the process.

Superior Performance from Indian Subsidiaries

In the past, it was the Indian subsidiaries of the MNEs who had to depend on their parent companies for financial support. Though many of the Indian subsidiaries still do that, a new phenomenon is also gaining ground. Many of the Indian subsidiaries of major MNEs like ABB, LG, Samsung, Nestle, and Siemens, to name a few, are all beating their parent companies on the performance scale, and India is fast emerging as the growth engine for MNEs. Some of these Indian subsidiaries are even clocking double-digit growth even when their parent companies are recording losses.

Though the vast Indian market of the billion-plus population holds great opportunity for the consumer goods companies, this phenomenon is not restricted to that sector only. Indian subsidiaries for the MNEs in non:-consumer goods sectors such as engineering and pharmaceuticals are also showing the same phenomenon. Global sales for Siemens (Siemens AG) has decreased by 3.4 per cent m 2002 (total sale in 2003 was only $83,784 million) while the Indian subsidiary of Siemens showed an increase in net sales by 13.8 per cent.

Changing Global Dynamics

With rapid globalization, intensive competition and poor economic conditions prevailing in most economies are always searching for ways to reduce costs to improve the bottom line. As a result, we have seen a rise in outsourcing to India Along with this- India's advantage of the availability of low-cost skilled labour gained importance. On the flip side, with the opening up of the Indian economy, new opportunities arrived, which these companies have grabbed successfully.

International Business

At the same time, opening up of the Indian economy and moderately high growth rate have attracted new competitors. With increased competition, companies have to reassess their existing investments and business portfolio. Those businesses, where returns on investments were not high and were not contributing significantly to their overall profit, were sold or hived off. The restructuring has left the Indian subsidiaries in a better position to move ahead of the competition.

Manufacturing Efficiencies

Production of goods and managing supply chain efficiently has also helped Indian subsidiaries of the MNEs to contribute more to their bottom line. Low manpower cost in manufacturing has helped the Indian subsidiaries very much. Siemens India benefited by shedding its excess workforce and reorganizing its workforce has been able to reduce its costs. At the factory level, the company reorganized its workforce on the basis of employees' ability to handle functions across one or more divisions. As a result, Siemens was able to maintain the same efficiency in terms of output level with 50 per cent fewer employees.

Hyundai India has the best-integrated manufacturing plant amongst the Indian subsidiaries of the MNEs. The efficiency of Hyundai India's operation at its Chennai plant has made the top management of its parent company in South Korea to send 2,000 managers and workers from its plant to Seoul to study Indian subsidiary's operations. Siemens has also reduced -its number of vendors from 20,000 to 2,000 with plans of further reducing them. Earlier the sheer number of vendors complicated the process of checking, ensuring quality, and delivery time. It has since then started grading its suppliers on several-parameters.

LG has followed kaizen in its Indian manufacturing plants, with the ultimate aim to achieve Six Sigma Quality. LG has also passed on the same work ethics to its suppliers.

Hyundai is planning to make Hyundai India as the global sourcing base for Santro. Siemens India is now also becoming increasingly significant contributor to Siemens AG. The outsourcing from Siemens India now contributes 21 per cent of its consolidated revenues. Cummins India now exports to China and Mexico.

Customer-Driven

While MNEs like Kellogg's failed to understand the Indian consumers, relentless focus towards the Indian consumers has enabled these companies to increase their sales, which has a positive impact on their revenues and profits. The localization of products and knowing what the Indian consumers want worked well for the consumer goods companies. Samsung has learned this aspect quickly and that it is very important for them to live to the expectations of the Indian consumers to stay on in the Indian market.

Samsung has washing machines with unique 'sari guard' and a memory restart: the feature that is ideally suited for India where there are frequent power cuts. LG has also launched TV s with Hindi and regional language menus.

Both Samsung and LG have launched TV sets with more than 800 watts 'of sound, compared to the normal 200 watts. This is a result of findings by both the companies that Indians like more volume on their TV sets because families often watch in a noisy environment. With the end-consumers in mind, LG now offers products with unique technology. Its Plasma range air conditioners with their unique Gold Fin technology offer air-filtering benefit. For the lower-end market, where the consumers are price-conscious, LG has launched low-priced TV such as Cine plus.

Nestle India launched a low priced (Rs 2) liquid chocolate, called Choc stick to cater to the price-conscious customers. Hyundai Accent has a powerful engine and sleek interiors at an attractive price range. In Siemens' case, the company has introduced several programmes to seek, generate and monitor customer feedback, and improve response time. It even redesigned indirect sales channels.

One such customer-related programme is the Key Account Management (KAM) concept. Earlier, a customer was being approached by people from two or more divisions of the company.. In the KAM concept, one key'= executive is responsible for getting business from all divisions of that customer. The company ~Iso initiated a mystery caller competition, under -which top Siemens executives acting as customers would call up executives of various centers at different times, even during lunch hours. These initiatives have resulted in an increase in the number of repeat orders, which resulted, in generating more revenues and profits.

Strategic Wonders

Formulating successful strategies and executing them efficiently played an important role in bethink these companies' profitability; be it in the entry-level, manufacturing, marketing, branding and pricing. Some of these companies have also found huge success by entering the vast rural market.

Even though Hyundai entered the Indian market only in 1996, it was able to lead in all the three auto segments, namely B-segment, C-segment and D-segment, in which it competes. Hyundai's choice of the deluxe small car to enter the Indian auto market instead of a sedan was its brilliant strategic move. Hyundai had correctly read the gap in the Indian market in that segment. That success helped Hyundai to establish its brand among the Indian consumers and has allowed Hyundai's parent company to introduce more new cars in other segments in India.

Marketers of these companies have adopted different strategies for launching products; LG's strategy of promoting its premium models like Flatron helps the brand creation an image of a high technology company. , The company has positioned its products keeping in 'mind the health-conscious attitude of Indians. Samsung's 'Digital All' campaign has worked in positioning. ~ Samsung as a company, which produces high technology products in the minds of the consumers. Hyundai has used the image of Shahrukh Khan in advertising its Santro, which was an instant hit among the Indian consumers: ~

CASE DISCUSSION QUESTIONS

A parent corporation is looking at Indian subsidiary for improving its quality of corporate governance and enhancing profitability. The theory says the reverse will happen, i.e. spillover effect from the parent to the subsidiary. This is also considered as the greatest honor ever received for Indian Corporates in the professional arena.

i) What are the factors that may result in higher profitability?

ii) What can be the impact of customer-driven business practices in Indian environment?

iii) What are the measures that can be taken by the MNEs to improve their local image in India?

There is a growing concern about the opening up of the retail sector in India. What is the significance of retail MNEs in the national economy by looking at the experience of Korean MNEs in India?

CASE 3 : THE EMERGENCE OF NEW INDUSTRY: STORY OF INDIAN BPO

Trade theories advocate the optimum utilization of resources and reducing the cost of production globally. This leads to a new tendency, which we call outsourcing less important or back-office works to low wage countries like India and China. The growing demand for backup is adding a dimension to the quickly proliferating outsourcing industry. Traditionally, conservative businesses such as insurance companies and mortgage brokers are contracting out back-office and customer service work, mirroring the way corporate titans such as IBM and General Electric moved such tasks away from the US several years ago. As new clients are handing over duties to third party companies rather than to their own subsidiaries, and in countries where they often have little experience, they feel more comfortable with suppliers who have good backup plans.

(a) Role of Educational Institution

Clearly, there are things that the educational institutions can do to help that. Some of the institutions have taken initiatives to get there and some are ~ waiting to see how these experiments shape up. There is also a lot of talks ‘: about the need for the industry and academia to come together so that it will” eventually help the industry better. But not much seems to be happening in this area. The orientation (of the academic institutions) will have to be a little different than the existing one, view the industry as their customers and do what's good for the industry and get rated by the industry.

Unless the academia has that kind of alignment with customer interests, it's difficult for them to devise the most appropriate curricula and syllabi. It is only when the academic institutions realize that they are serving '" a certain customer base and they need to fulfill the needs of that customer base and take proactive action internally, that the situation would improve. But, at this point of time, it appears as though the entire onus is on the industry to do it. Today, academia seems to say if you want these people you come and do whatever it is to make these people suitable for companies.

(b) Rising Demand

The huge pool of human resources in India is much talked about and a chunk of the human resources from the engineering colleges. The mistake companies commonly make is to underestimate the human potential that is available, and not providing them with the right type of opportunities. We must remember that the IT industry recruits the top 1 per cent of the brainpower that is available in this country. This number is small compared to the ones "that go to school, and the ones that graduate. So it means it's the cream of the cream that gets into this industry. And so in terms of brainpower, it's quite unmatched.

Unlikely, for the next several years, it's not going to be uncompetitive. The wage increase is only marginal, and the productivity improvement that happens year after year compensates for the bulk of the increase that happens. To that extent, it's not a factor ~o worry about, at least for the next four to five years. Nasscom report (May 2004) predicts that within a few years, there will be less supply of qualified human resource in India compared to the demand. Forrester (May 2004) says that by 2010, 3.3 million jobs will be created in IT and IT-related areas in India, That's a lot of people. This means many companies may not go after the top 1 per cent, and they would expand it to the top 5 per cent, for which, the educational institutions have to change and intensify the courses, and should be meritocracy-based. People who score good marks or are more intelligent do get into higher schools.

(c) In Search of Talents

In order to get a comprehensive mix of capabilities and high talent, companies decided to look at outside universities as well. They went to Carnegie Mellon, Stanford, MIT, and Columbia for recruitment. These are all Ivy League schools that attract top talent. Earlier, people hesitated to come to India. A couple of years back, many Indian companies went to recruit but they .were not interested in coming to India and spending some time here.

The beginning of 2003 was a turning point when the media turned their attention to off shoring in a big way. The visibility was very high and everybody was suddenly talking about India. There is a lot more that gets outsourced to China in terms of manufacturing than to India, but India got a far greater share of that visibility. That's when people realized that there is so much happening in India, and wanted to be a part of it.

But when a company goes to these schools, ask for GPA-based filtering of candidates, say a GPA of over 3.5 or 3.8, most of them are Indians. Indians somehow seem to have mastered the trade of how to get high GP A. So, companies had to do a different mix in order to make sure they have a good mix of people who have gone from India to study in the USA as well as the local people, and people from other countries.

(d) Chennai, the BPO Hub

Offshore projects accounted for over 70 per cent of the total software exports of Tamil Nadu during 2003-4, according to Software Technology Parks of India, Chennai. Tamil Nadu's total IT exports stood at Rs. 7,621.50 crore (Rs. 7621 billion) during the last fiscal, including exports from STPI, MEPZ, and other units.

Chennai and its suburbs continued to be the major software exporting locations in the state. Exports from these locations stood at Rs. 7,557.64 crore (Rs. 75.58 billion), followed by Coimbatore region at Rs. 45.76 crore (Rs. 457.6 million), and Tiruchi at Rs. 13.42 crore (Rs. 134.2 million). Application software and system software accounted for 60 per cent of total exports, followed by consultancy services at 28 per cent, and ITES at 8 per cent. Tata Consultancy Services was the top exporter from Tamil Nadu, followed by Infosys Technologies, HCL Technologies, Cognizant Technology Solutions, Wipro, and Polaris Software. Tamil Nadu's hardware exports crossed Rs. 100 crore (Rs. 1 billion), and stood at Rs. 118.88 crore (Rs. 1.19 billion) in 2003.

CASE DISCUSSION QUESTIONS

1. To what extent does the theory of Comparative Advantage explain the rise of th~ Indian BPO industry?
2. To what extent does the Heckscher-Ohlin theory explain the rise of the Indian BPO industry?
3. Use Michael Porter's diamond to analyze the rise of the Indian BPO industry. Does this analysis help explain the rise of this industry?

CASE 4: CUTTING EDGE LTD

Cutting Edge Ltd., a Nasik based company is globally set up, for its unique products. This is a precise example which has remarkable skills and strategies for identifying new product developing them for commercial exploitation. The company always at global operation right from the beginning. It was very quick in and establishing itself firmly in the international markets.

The company began its corporate journey in the year 1995manufacturing of quality scissors used for various application/uses did not lose any time and was quick enough to spread its wings in other countries. By the end of the year 2004, it had added more products portfolio; popular among them are razors and blades.

CEL's manufacturing operations, apart from Nashik are in more than 10 locations in four countries. The products are market for more than 20 countries. Within a span of fewer than 10 years, CEL has its overseas revenue from a meager US$50000 to US$140 million.

It concentrated on its main line of scissors and blades and expanded the by adopting novel ideas like distribution-free razor blades or scissors bank (Shave and save plan) or (Cut and cut the expenditure plan). Even the recessionary period it sponsored major sporting events and through worldwide advertising kept up its sales.

The remarkable strategy adopted by this company is in identifying a product for which there was need and developing from the beginning a high product and convincing consumers to buy quality and sophisticated. This enabled the company to sell more expensive products at a higher profit. It kept in close touch with the market and the needs of the produced new product as demand arose. The company has a considerable market research and design engineering.

CEL realized the importance of exports and international operation, Words; international operation/business was the part of the plan from inception to the company and not an afterthought. Out of the total sales of US$140 million, almost 92% sales are coming from the developed market like U.S.A., Canada Japan, etc. the company has not been able to make inroads in developing and underdeveloped markets. One of the main reasons fearing is that in the developing and underdeveloped markets it may able to enjoy the same profit margins as it is enjoying in developed CEL would like to make sure that its presence must be felt in the developing and underdeveloped markets and business contribution from these markets must be enhanced to a large extent without harming the profitability picture.

Analyse the case and guide the CEL management in increasing the sales revenue from the less developed markets without hampering the company's overall profitability.

CASE 5

There have been still shortages of power in India. For our growth, power is required in huge quantity. Knowing this our Government is focusing on power projects like Hydel power, Thermal power, Nuclear power, Wind energy, solar power etc. With this in mind the Government has come up with large Power projects, all across our country, by identifying the various resources of power. One such hydel project has come up, in Kashmir, a place called Bandipura, 85 kms from Srinagar. A leading Engineering Construction Company M/s HCC (Hindustan Construction Co Ltd , has bagged a Turnkey hydel project from M/s NHPC (National Hydel Power Corporation a, Govt body) This mega project construction includes a water tunnel of 24 kms, for transporting water from dam to powerhouse, which is 5.8 meter diameter. For this operation and construction, project needs several high capacity construction machinery, many of them need to be imported. TBM (TUNNEL BORING MACHINE) IS ONE SUCH MACHINERY. The project management have decided to import this TBM MACHINE FROM ITALY. This machine would require about 170 containers and 10 ODC / BREAKBULK Consignment to get them transported from ITALY by ship to Mumbai and JNPT Port near Mumbai and then move them by road to its project destination at Bandipura near Srinagar in Kashmir. Out of these height of ODC consignment, biggest of them is 72 tons, single item with height of 3.9 meter. The preliminary study made indicated that the routes those need to be followed is Mumbai - New Delhi - Jammu - Srinagar – Bandipura. Between Jammu and Srinagar there are 2 road tunnels, one of the famous Jawahar tunnel through which these consignments need to be transported. At Jawahar tunnel you can move only consignments of height 4.6 meter. The route from Jawahar tunnel towards project site there is heavy snow fall from Dec to March of the year. The route from Jammu to Srinagar and then to BANDIPURA Project site the road has steep gradient and need high power transportation vehicles. In addition this stretch of road has few steel bridges constructed by Army & need approval from them before moving any ODC consignments for security reasons. Ms HCC have chosen you as Logistics Manager for this Project execution & handling the transportation of such consignments, considering your past experience of handling such project Cargo, in India. However any damage, or delay in transportation of any of these containers or ODC consignments mean, delay in important project, of National importance and will not be tolerated by the top management. Monitoring of each of the activities, decision making by you for handling these project cargo is monitored by high level top management of M/s HCC. Your success in this will bring you a double promotion with bigger emolument, and you would be a blue eyed man in this organization.

In this scenario,

a. List down, 3 important decisions that you would take in handling of this logistic assignment for its 100 % success.

b. What vehicles you would deploy for transportation of these consignments by road in the route suggested?

c. Explain the reports that you would, for monitoring these critical consignments.

d. Describe the job responsibilities that you would demand and put in the scope of your outsourced logistic service provider.

e. Draw your job responsibilities.

CASE 5 : AUTOLATINA: AN INTERNATIONAL PARTNERSHIP THAT ENDED UP IN A DIVORCE: FORD - VOLKSWAGEN JOINT VENTURE IN BRAZIL

Autolatina, a joint venture of Ford and Volkswagen (VW), was created in 1987 in Brazil. The partners created the new company in order to serve the highly protected car markets of Brazil and Argentina from within. In addition, their goal was to create a giant theoretically invincible in the Latin American market. The partners' strategy was to share the risk of operating in a volatile market and support a wide model range. Soon after the fusion, Autolatina market share reached 60% in the Brazilian market and 30% in Argentina. Of German origin, Volkswagen was originally founded in 1937, with the goal of offering the "popular cars" that anyone could afford. This was best reflected by the Volkswagen Beetle which, at one time, was the world's bestselling car. Early on, the Beetle became a mascot of Brazil's economic miracle, accounting for nearly half of Brazilian car sales. Volkswagen launched VW Gol in 1980 please substitute the VW Beetle. It was assembled at Volkswagen do Brazil, which employed more than 45,000 people and was the largest industrial corporation in Latin America. VW Gol has been the best-selling car or in Brazil since VW Beetle. Ford was the first automotive company to assemble in Brazil, and prior to 1939, it dominated passenger car sales. In the 1950s, Ford resisted Brazilian government plans to establish complete automotive operations, including assembly and full manufacturing. Reluctant to share the same vision with the Brazilian government, Ford allowed Volkswagen to capture the Brazilian market. Ford reentered the market in the 1970s and became the second largest automobile producer after VW. Brazil's car industry, coddled by years of high tariff barriers and other forms of protectionism, has been scrambling to modernize. For decades, imported cars were banned or made prohibitively expensive and foreign parts were not allowed to be fitted to locally made cars. A symbol of the "Brazilian miracle" of the 1970s, the auto industry became emblematic of Latin America's "lost decade" of the 1980s. A ban on imports meant that the auto industry did not keep up with technological innovations, and consumers had no choice but to accept the manufacturers' complacency. Brazil was, at the time, a new potential market for U.S. subcompacts.

Autolatina: A Perfect Marriage

Ford and VW's strategy to combine operations reflected the partners' will to overcome obstacles in the Brazilian market. By the 1980s, Ford and Volkswagen had a total of 15 vehicle, engine, and parts plants in Brazil and Argentina, employing 75,000 people. Their combined annual production capacity was 900,000 cars and trucks, distributed through 1,500 dealerships. Their automotive and credit operations reported sales totaling US$ 4 billion. In a market protected from external competition, Autolatina became highly successful. It offered inexpensive models, including the Escort XR3, Sierra, VW's Gol, Beetle, and aging midsized Ford Falcons. Autolatina spent $35 million refitting a plant to build Beetles. The growth in this market segment relied exclusively on tax incentives from the Brazilian government. The products were adapted for a smaller engine. The goal was to manufacture car models at lowest possible cost. Plant operations were organized by size of vehicles. Ford had been relying on VW to build small cars while Ford was supplying the larger Escort and a line of pickup trucks. The two partners even produced shared products. For instance, Volkswagen was producing Ford Versailles (derived from VW Santana), and for those producing VW Logus (derived from Ford Escort). Marketing and sales staff were unified. Specialists and consultants were hired to accommodate the two different company cultures. Production of Autolatina cars rose substantially over time. In 1994, it seemed both companies had succeeded in identifying the key factors contributing to Autolatina's success: inexpensive, non-competing models, a growing Brazilian market, and sharing of manufacturing and profits. Autolatina enabled both companies to serve an important country from within, and reduced operational costs for both partners.

Developments: New Competition and the Emergence of MERCOSUR

During the 1990s, conditions shifted in Brazil, and Autolatina were caught unprepared by renewed economic growth. In addition to the popular car policy, Brazil reduced tariffs on car imports. Over the course of five years, import tariffs fell from 85 percent to as low as 20 percent. In 1991, MERCOSUR (Mercado Comun del Sur, or free trade area of the Southern Cone) went into effect. The creation of the MERCOSUR free-trade area boosted Brazil's exports to Argentina. Originally a free trade agreement between Argentina, Brazil, Paraguay and Uruguay, MERCOSUR was extended in 1996 to include Chile and, in 1997, Bolivia. With 150 million of MERCOSUR's 200 million inhabitants, Brazil was ready to become the region's car-making center. The formation of MERCOSUR, falling tariffs and the Autolatina's success, provoked rivals into action. GM and Fiat moved into Argentina and Brazil in a big way, and began producing cars to compete with Autolatina. Brazil became the world's tenth-largest producer of automobiles. Economic conditions vary widely among the MERCOSUR member states. Despite these asymmetries, the members agreed to strive for economic stability through political, fiscal and monetary policies, a wider opening of the economy to global competition, and modernization of the economies through deregulation and privatization. The implementation of economic reforms (that stabilized and liberalized the Brazilian and Argentinean economies) and specific governmental policies, such as commercial agreements, were the political and economic bases for a new structure in the supply chain of the automobile sector. These measures contributed to new environmental factors such as the increase in domestic demand and the industrial modernization of both countries. The new scenario in MERCOSUR favored the activities of automotive assemblers in the region. Business executives in the MERCOSUR countries had to adapt distribution channels, consider a broader market, learn about new consumers and take into account the complementarities of their MERCOSUR partners. The reduction of tariffs among the member countries opened new opportunities for multinationals. MERCOSUR allowed Argentina to increase its exports, and Brazil to engage in international trade at an accelerated rate. The emergence of MERCOSUR led to a substantial increase in foreign investment in Brazil from major multinational car makers. Major new players in the Brazilian market include GM, Fiat, Renault, Mercedes Benz and Toyota, all with their own manufacturing plants. In addition, other major players began direct investment in Brazil and Argentina, or announced that they would locate in these countries: Asia Motors Inc., Audi AG, Honda Motor Co., Hyundai, Toyota and Mercedes-Benz. Meanwhile, the products of Autolatina, built for a protected market, fell out of step. Brazilian consumers began to show a preference for lower-cost small cars, and pricing competition intensified as a result of the abundance of competing small cars. Both GM and Fiat launched popular cars for less than $7,000 (Corsa and Uno). The table below presents the variety of offerings by four leading companies. Although Autolatina had succeeded in reviving the VW Beetle, customers deserted "the bug" in droves for lowerpriced competing brands. With increased competition, customer's choices were expanded beyond low cost, increasing the pressure on manufacturers to improve quality and offerings.

Company	Market Segment	Products
Volkswagen1	Small	Beetle, Gol
	Mid sized	Logus, Pointer, Voyage
	Large	Santana
Ford	Mid sized	Escort, Verona
	Large	Versailles
General Motors	Small	Corsa
	Mid sized	Kadett, Monza, Vectra
	Large	Omega
Fiat	Small	Uno
	Large	Tempra

Conflicts between the Partners

"In addition to dynamic changes in the market, conflicts arose in the strategies of Ford and VW. Ford dealers in Brazil had been begging for smaller cars that are better suited to Latin American consumers. But Ford avoided the erosion of Autolatina's profits by competing with VW's Gol (from which it was receiving half the profits). Volkswagen management, on the other hand, was reluctant to share its subcompact design with Ford so that Ford could use it in other markets. Mutual Willingness to share technological knowledge and other key competences with each other declined over time. 1 Volkswagen stopped the production of the Beetle in 1996 in Brazil. The new Beetle (sold in Europe) is not manufactured in Brazil. Differences in the organizational cultures of the two partners also contributed to deteriorating relationships between Ford and Volkswagen. The German and the U.S. organizations had different histories and origins, as well as different management styles. Within the boundaries of the Autolatina, VW and Ford were reasonably well integrated operationally, even exchanging model fabrication. However, external to the relationship, suppliers continued to serve the two companies independently, as well as the dealerships. Autolatina was not fully integrated with suppliers or the dealers, leading to inefficiencies in the supply chain. For example, the dealerships were not consolidated, a potential for reducing administrative costs. Furthermore, the partners could have consolidated their supply base, gaining scale economies. The suppliers continued to serve Autolatina independently of the two partner companies. In addition, VW and Ford continued to compete with each other in the worldwide market, making it really difficult to share any technical knowledge, jeopardizing internal collaboration. Outside of the Autolatina collaboration, the partners were even competing against each other by launching new cars in the same category.

The End of Autolatina

In 1995, Ford and VW decided to end their alliance. The parting was so amicable that the employees were allowed to choose the company they wanted to continue to work for. Because the sale of subcompact vehicles, known as "popular cars" in South America, took off rapidly, Volkswagen's smaller cars benefited from the demise of the joint venture. VW held a third of the regional market and on a $ 2.5 billion investment plan, expanding capacity by a third (up to 2,500 vehicles a day), and launching a line of new engines and a new truck plant. Ford specialized in midsized cars and was unable to respond to the regional demand for small cars. Eventually Ford's image was damaged, and it was seen as the company producing cars that few wanted to buy. Ford began a $1.1 billion investment on its own to produce Fiestas in Brazil and Escorts in Argentina. Ford then controlled 11 percent of auto sales in Brazil, while VW, Fiat, and GM held market shares of 35.6 percent, 27 percent, and 23.2 percent, respectively. After the break-up of Autolatina, Ford launched a series of new models in Latin America to rebuild its image. The Fiesta has, despite its rocky start, bolstered Ford's position. Ford also launched the late version of the Escort in Argentina, and Ford had big hopes for the Ranger pickup and for the Ka.

Future

The removal of trade barriers within the MERCOSUR contributed to intensified competition in Latin America. However, much uncertainty remained as to how government policies would evolve over time regarding regional free trade blocs. After decades of high inflation and ineffective government, Brazilian businesses are becoming more entrepreneurial, and the labor force is more productive. Managers at Brazilian firms have become more sophisticated, putting more emphasis on long-term profits and strategic planning. Competition has increased substantially. In the new competitive environment triggered by MERCOSUR, managers increasingly understand that improving goods, service quality, and lowering prices are the best ways to maintain long term domestic competitiveness. But both Brazil and Argentina continue to experience periods of instability.

QUESTIONS

(1) What strengths did Ford and VW bring to the Autolatina venture? Did these firms have any weaknesses? Please elaborate.

(2) Did Ford commit any blunders in its Latin American operations? Please specify. What can be learned from Ford's experience in Latin America? What should Ford do now?

(3) What types of opportunities does a trade bloc present to the firms that do business within it? What opportunities and threats should management at Ford and VW anticipate within the evolving MERCOSUR trade bloc?

(4) What strategies can you recommend for Ford and VW to follow in order to maximize their prospects for success in the MERCOSUR bloc?