

TO ANALYSE THE STRATEGY ADOPTED BY VOLKSWAGEN TO SET UP ITS MANUFACTURING PLANT IN INDIA

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Abstract:

The purpose of this study is to analyze the strategy adopted by Volkswagen to set up its manufacturing plant in India. Automobile manufacturing companies are looking to expand their business in developing countries, so as to gain benefits from tapping into an untapped car market and benefiting the country in return by providing the people with opportunities for employment. The study analyses the entry strategy adopted by the manufacturing giant in order to get a foothold in the car market of India, as well as the rationale behind such strategies. The economic, political, social and technological conditions of a country constitute its macro environment. Such an environment in India encourages for direct entry strategy. (D'Costa, 2002) Entry of a new car manufacturing company in a country implies a lot of advantages for the country, such as employment opportunities in the country. However, the entry strategy of the company has to consider several elements of the specific country. By analysing one such strategy in this case study, one can gain valuable insight into what considerations need to be taken by an automobile company in order to make an entry into a new market territory.

Introduction

India is a very attractive target for investment in today's economy. As far as investment destinations are concerned the world over, India has a potential market that is huge and promising.(Das, 2003) In the automobile sector, India it is to be noted, boasts of the presence of plants of many automobile manufacturers in the world. The car market of India is one of the largest in the world as well, and might only increase each year. Some factors have favoured such growth of car industry in India, such as favourable macro environment and policy environment.

The automobile sector plays a key in the world economy as well as in the Indian economy. It is in fact considered to be the sixth largest economy in the world. There is much to be noted about the automobile industry in India.(D'Costa, 2002) The automobile industry in India is dominated chiefly by low budget small vehicles and it is certainly dominated by two wheelers. The passenger cars sold in India are dominated by small cars. The consumers are indeed price sensitive, with focus on fuel efficient cars. Given the growing middle class segment and large population, the potential for demand in automobile market looks promising. Some global car making giants have already invested in India, such as Ford and GM. The industry provides at least five lakh persons with direct employment opportunities. Also, the industry contributes nearly 5% to the GDP of India and about 19% to the indirect tax revenue in India. The Indian automobile situation has changed since the 1980s, before which the key players in Indian automobile sector were very few. The sector was suffering from substandard, obsolete technologies when

compared to the rest of the world as well as low volumes of production.(Das, 2003) However, after the phase of struggle, what changed the situation was the de licensing and the opening up of automobile sector to Foreign Direct Investment in 1993, due to which the sector gradually grew owing to the entry of global car makers into the country.

On the other hand, the vehicle demand in India has been growing at an appreciable rate as well. The various factors which have contributed to this growing rise in demand, among others, are a middle class segment which is exhibiting rapid growth, rise in per capita incomes as well as easy availability of funds and finance in the country, apart from the easy availability of disposable income to individuals as compared to earlier periods.(Das, 2003) This rise in vehicle demand has naturally prompted the country's government to invest in related sectors like infrastructure of roads. Some example projects related to such a sector include North-East-South-West corridor as well as the Golden quadrilateral, etc. (ACMA, 2006). It has been noted, however, that the infrastructure of such roads remains below global standards for such roads. However, the important point to be noted is that the passenger vehicle penetration rate is only around 8.5 cars per thousand, and thus, it is evident that the potential demand for vehicles in the country is in fact huge. Within the automobile industry, there are two distinct types of players in India: they are the vehicle manufacturers and the component manufacturers, also known to many as the original equipment manufacturers or OEM.(McKinsey, 2005) The former comprise of firms which manufacture two wheelers, three wheelers, four wheelers, light commercial vehicles, buses/ coaches, heavy trucks and last but not the least, passenger cars. In the years 2005 to 2006, India produced at least 1.3 million utility vehicles and passenger cars. India is the second largest two wheeler producer in the world and the thirteenth largest producer of passenger cars globally.(McKinsey, 2005)

Literature Review:

Thus, for this research study, the objective is to obtain feedback from a few relevant management personnel of Volkswagen, India regarding their opinion of the company's entry strategy into India. Such interviews can be conducted efficiently by the researcher if a relevant review of literature is conducted first. This study could help companies aiming to make a market entry into India in the near future by giving them a picture of the macro environment in India so that they can adopt a suitable strategy for a successful market entry. Such review of literature should be conducted in a focused manner so that the researcher can then proceed properly with the research.

Various marketing theories and concepts are used by the management to enter any untapped market. Market strategies are formulated and also the mode of entry in the market is analysed. Success of the marketing plan depends on the marketing strategies adopted keeping in view requirements of the customers.

Objectives

- To study the various factors, chiefly macro-economic factors, that have an impact on the setting up of an automobile plant in India, and hence need to be considered by a company before it plans a strategy

- To ascertain the potential demand for vehicles in India, the foreign direct investment policies in India and the effect of such factors in attracting foreign auto makers to establish themselves in the country.
- To specifically analyse the strategy/strategies adopted by the German car maker Volkswagen to set up its manufacturing plant in India and the rationale behind such strategies.

The above aims and objectives will be focused on in this study so as to comprehend the rationale behind the strategies adopted by successful car maker giants such as Volkswagen with respect to India, so that the study can be of help to car makers looking to invest in the Indian automobile sector in the near future. Thus the study aims to analyse the entry strategy adopted by the manufacturing giant Volkswagen in order to get a foothold in the car market of India, as well as the rationale behind such strategies.

Research Methodologies

Comparison of quantitative and qualitative data:

Qualitative	Quantitative
Aim: detailed and complete in description.	Aim: classification of features, counting it and construction of statistical model
Used in starting stage of study	Used in the later stage of study
Researcher might not clearly understand what is needed for in the beginning.	Clear understanding of what is needed.
It is designed in parallel to the study	It is designed in prior to the study
Rich consumes time and generalization is tough.	Efficient easy to prove but might neglect the concept
It is subjective and hence researcher gets immersed in the topic	It is objective and hence researcher remains separated from the topic
Data is in the form of pictures, words and objects.	Data is in the form of numbers and statistics.

Table 1

Sampling method

The sampling method involves a process for selection of respondents, and this is done by selecting a small sample of respondents who are taken to represent the larger population being studied. This is considered to be an effective and time saving method of surveying or interviewing respondents. In this case, the finalized version of the interview questionnaire was presented to around 2 respondents who were top management personnel of Volkswagen, India, as well as further brief interviews with two staff of technical office, one technical manager, one marketing manager and two staff from marketing department of the company in India.

Methods

In our study, a well-defined interview questionnaire was used which comprised of 12 questions. Most of the questions so designed were open ended and straight forward so as to make it easier for the respondents to answer the questions in a to the point and relevant fashion and also to eliminate occurrence of any bias during the answering process. The main objective of collecting data by means of such interview was to obtain data for qualitative analysis. After the available literature was reviewed, a questionnaire was constructed with view of being as relevant as possible to the topic under study. In this way, the data was collected for qualitative analysis by obtaining answers from respondents for the designed set of questions.

In this case, the finalized version of the interview questionnaire was presented to around 2 respondents who were top management personnel of Volkswagen, India, as well as further brief interviews with two staff of technical office, one technical manager, one marketing manager and two staff from marketing department of the company in India. The responses obtained from such respondents was collected and stored to be used during qualitative analysis of the data. The analysis was done using tools like logical analysis, natural language etc. The analysis of data in this way was required for ascertaining how far the marketing strategies adopted by the Volkswagen in India were successful for the company.

DATA ANALYSIS

Procedure:

The purpose of our data collection is obtaining feedback from a few relevant management personnel of Volkswagen, India regarding their opinion of the company's entry strategy into India. Thus, obtaining information from respondents, ie, management personnel, is very important for this research purpose. Such a data collection involves a step by step process of qualitative collection of responses from those interviewed and this will help the researcher to analyze data so as to arrive at a conclusion regarding the entry strategy of Volkswagen in the Indian market and how far was it an advantage for the company. For this purpose, it is important to gather the opinions of the persons being interviewed by means of proper and relevant questions regarding the topic of study so that useful responses can be obtained for the researcher to gain an understanding about the logic behind and the factors which affected Volkswagen's strategy when they thought to enter the Indian market.

Focusing on the objectives of this specific study, it is very important to obtain feedback from top management level personnel of the VW Group India, so as to get an idea about the entry strategy adopted by Volkswagen for the purpose of establishing themselves in the automobile market in India. This section focuses on the method involved in the analysis of primary data collected from

management personnel of Volkswagen in India who were interviewed for qualitative collection of primary data. For this purpose, primary data was collected by the researcher by holding a brief and formal interview with two of the management staff of VW Group India. The data collected in this manner was assimilated for processing and subsequent analysis.

Analysis:

The data collection was carried out by means of email requests sent to the concerned Volkswagen personnel in India, explaining duly to them that the purpose of the interview was purely an academic one, and that anonymity would be maintained. For the purpose of primary data collection, the researcher aimed to hold a brief and formal interview with two of the management staff of VW Group India, as well as further brief interviews with two staff of technical office, one technical manager, one marketing manager and two staff from marketing department of the company in India. The questions were framed so as to be relevant to the topic of study and help attain the research objectives. The research questions can help the researcher to also attain answers regarding the major factors and key points to be taken into consideration for setting up a car plant in India. The following were the interview questions framed for the purpose of questioning the two selected management staff of VW Group India regarding the market entry strategy of Volkswagen in India:

Questions:

1. Why was direct entry the key strategy adopted by VW in entering the car market in India?
2. Has the strategy proven to be beneficial?
3. Can there be an alternative or better strategy?
4. Is the strategy mostly influenced by the political, economic and social conditions of the country?

Have there been any disadvantages of the strategy?

1. The question for technical office staff and manager:
2. Have you been with Volkswagen in India since it was set up in 2007?
3. Has direct entry of this company in India proven to be beneficial in general?
4. How have you adapted to this approach as far as workflow in technical department is concerned?

Questions for marketing department staff and manager:

1. Has the entry of Volkswagen in India been a smooth one according to you?
2. What marketing techniques are you applying to increase sales of Volkswagen cars in the country?
3. Has there been any disadvantage in marketing Volkswagen vehicles here because of direct entry strategy? If so, what? If not, why not?
4. How are the goals for marketing dept in India different from that of home country or other countries?

The responses obtained from the interview were collected and analysed as qualitative data. Such data is non-numeric in nature and thus cannot be quantitatively analysed. However, such

data sometimes gives the researcher more revealing answers as compared to quantitative data or data collected by survey, for example.

1. For the first question the interviewees commented that Volkswagen has been successful the world over in the global automobile market scenario and a predominant market strategy of Volkswagen, has been observed to be the acquisition strategy. In countries like China, for example, Volkswagen opted for the joint venture strategy and this decision might well have been influenced by the foreign direct investment policy of the country. In India, however, they found situation to be favourable for direct entry and thus the investment strategy of VW in India started from scratch since VW aimed to hold a competitive and strategic position in Asian car market. Of late, due to diminishing target market and the overall market conditions around the globe, the acquisitions activities of VW have been reduced as well. Thus the first step taken by VW in India was to acquire an advantageous yet low cost site for manufacturing automobile which could be sold in Asia as well as for assembling components produced outside Asia. Thus it opened its own manufacturing plant in Chakan, India, in 2009

BRAND	MODEL	JAN 2011	FEB 2011	MAR 2011	APR 2011	TOTAL 2011
VW	POLO	3023	3033	3881	3775	20,127
VW	VENTO	2308	3548	3973	2866	17,555
VW	JETTA	247	201	205	162	975
VW	BEETLE	20	25	21	16	88
VW	PASSAT	2	0	0	184	383

Table 2

Source:

<http://www.team-bhp.com/forum/indian-car-scene/103822-june-2011-indian-car-sales-figures.html>

2. For the second question, both respondents opined that the direct entry strategy has indeed been beneficial in case of India. Success stories of Volkswagen market entries can be observed in countries like china, etc. Volkswagen aims to replicate such success in India, and the entry strategy was a suitable one for Volkswagen to establish itself in India. One of the respondents even added that Volkswagen has some aims at the global level as well, such as becoming the number one automobile company in the world. Thus, the expansion of Volkswagen in Asian countries such as India and of course, China, would certainly help Volkswagen move closer towards that aim.
3. Strategies can keep changing with times according to the current political, social and economic scenario of the country said one interviewee. However, the second interviewee added, India was in a stage of positive economic development and the timing for Volkswagen's entry into the Indian market could not have been better. Thus,

given the current macro environment in India, this strategy served the purpose well for Volkswagen.

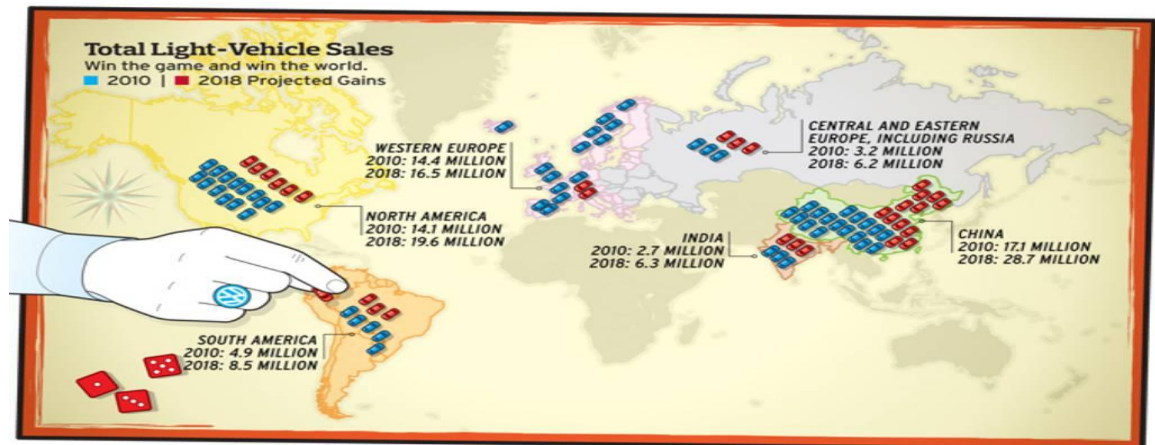


Fig1

It is clearly depicted the sales and holding in India is around 2.7 million. This indicates that VW is a major player in India and aims at achieving the market share and making the withhold around 6.3 million by end of 2018

4. For a firm or corporation, the environment of a foreign market is markedly different from its own. Thus, the market entry strategy has to be decided only after studying the political, economic and social conditions of the country, opined one of the interviewees. The other interviewee replied that the market entry strategy of Volkswagen in different countries depended on the political, economic and social conditions of each country, which is why they opted for a joint venture strategy in China, for example.
5. The interviewees found no disadvantages to be associated with the strategy, however, one of the interviewees opined that proper study of Indian car market and the car segment with maximum demand needed to be studied in order to attain true success, because a good entry strategy alone could not help a company to establish itself well in a foreign market.

Following are brief overview of the questions put to technical dept manager and staff of Volkswagen, India

1. Have you been with Volkswagen in India since it was set up in 2007?

For this question, the manager and one staff answered yes, whereas the remaining respondent replied that they had joined in 2009. This question was asked so as to make sure the subsequent questions were asked to experienced respondents so as to obtain meaningful and appropriate answers.

2. Has direct entry of this company in India proven to be beneficial in general?

All three respondents replied positively for this question in slightly differing ways. The manager responded that yes, the approach was indeed an advantage, and also for the technical department, where they were in touch with their main technical center in Germany all the time. Based on such an approach the staffs of technical department were able to replicate quality parts

for cars to be manufactured in India. However, since the cars are being manufactured in India, it is also ensured that the vehicle parts satisfy Indian quality control rules and thus the department also needs to be in touch with the required office in India which approves manufactured car parts.

Explosive Growth of Vehicle Sales in China / India / Brazil

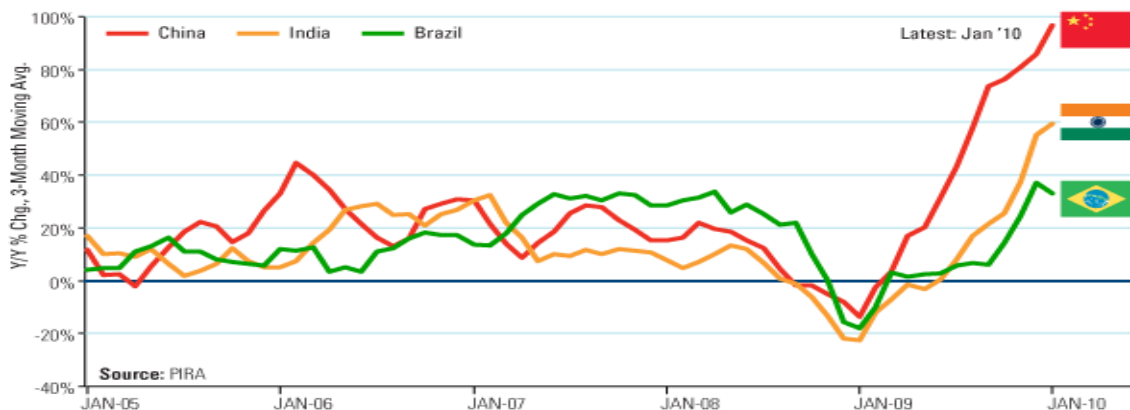


Fig 2

Both the staff responded that yes the direct entry strategy has been beneficial as well for the smooth running of the technical department with minimum confusion, so that the staff are able to focus on manufacturing quality Volkswagen style car parts without too much alterations, just enough to confirm to Indian car quality standards.

The graph above clearly depicts the growth of the automobile industry in India. Thus, direct entry of Volkswagen in India is considered to be the apt.

Evolution of market shares between major car manufacturers in India:
2009 - 2010 comparison based on sales volumes

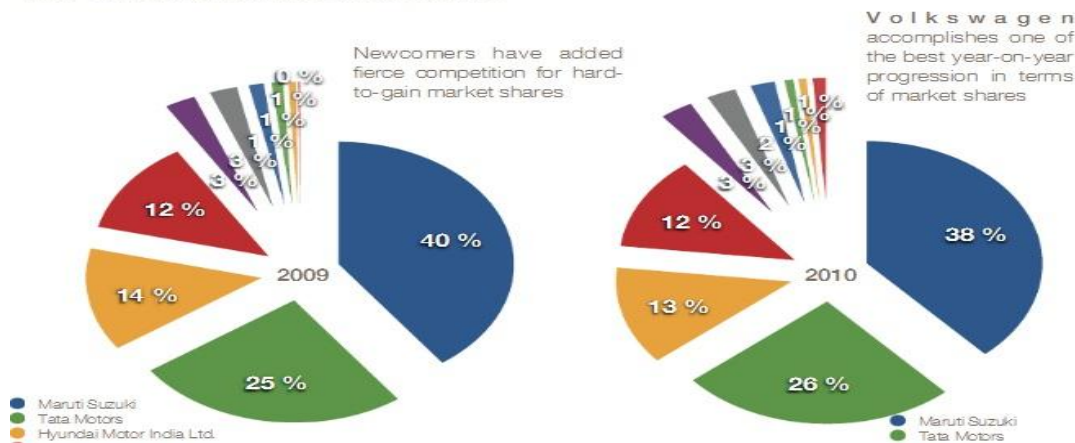


Fig3

- How have you adapted to this approach as far as workflow in technical department is concerned?

The approach of direct entry has led to a more or less smooth set up of the technical department for Volkswagen in India, with minimum differences of opinion, confusion, etc. Thus the sole aim of the technical department remains to fulfil the promise to Indian customers, which is to belt out quality Volkswagen standard car parts, and thus focus on the quality. Thus the design of workflow was carried out accordingly and has not faced many glitches so far.



Fig 4

This is clearly depicted by the figure above

Following are brief overview of the questions put to marketingdept manager and staff of Volkswagen, India

1. Has the entry of Volkswagen in India been a smooth one according to you?

Well the entry of Volkswagen into his country did face the initial rough face that is faced by any company at the time of set up. However, the plant was set up in India only after come to the careful conclusion that there is a huge potential in the Indian car market. So, after the initial phase, the functioning of the company and its processes has been more or less smooth. Then of course, the market for cars in India is extremely competitive, with a majority of the customers having specific preferences, or set preferences, which again, are two different things. Thus, it is up to us, the marketing department managers and staff, to effectively market the products of Volkswagen here so that the purpose for which the company was set up here gets truly fulfilled.

2. What marketing techniques are you applying to increase sales of Volkswagen cars in the country?

Well Indian car market is an extremely competitive one with numerous domestic as well as international car brands available here. Domestic brands like Tata Motors, for instance, provide stiff competition. Thus the building of brand power and brand value and constant visibility in front of potential customers is what will help Volkswagen to succeed in this country at a bigger level. Several car companies in this country are now resorting to innovative and never-seen-before steps in order to market their vehicles. Volkswagen has become official sponsors for at least two Indian Premier League matches, which are nothing short of a rage in this country. Aggressive marketing is what will help Volkswagen to survive the competition in India.

3. Has there been any disadvantage in marketing Volkswagen vehicles here because of direct entry strategy? If so, what? If not, why not?

As such the direct entry strategy of this company has not proven to be a disadvantage, since the

set up of the company did not face major problems due to the direct entry strategy that it adopted. However, the marketing of Volkswagen cars is altogether a different game and requires much creativity and unique approach from every staff member. The question remains in the minds of many that perhaps a joint venture with an already established company in this country might have given Volkswagen more success. However, Indian car market is one with a lot of untapped potential and the right type of marketing strategies can indeed make many a loyal customer of this brand.

4. How are the goals for marketing dept in India different from that of home country or other countries?(Question mainly for manager)

Well there certainly has been a slight shift in goals as far as marketing department is concerned. The marketing approach varies based on goals. In home country, the company and its brand are already well established ones, whereas in India, though the brand is well known, the customers mostly look to play safe by purchasing a domestic or tried and tested product. Thus, our goal here is also to communicate to potential customers via marketing that the vehicles here are being manufactured keeping in mind the Indian roads and are tailor made for people in this country. Building of customer trust and loyalty has become a chief concern for marketing department of Volkswagen in this country.

<i>Topic of investigation</i>	<i>Questions asked</i>	<i>Volkswagen India(overall responses)</i>
Product	What do you produce?	Vehicles, mainly passenger cars
Entry strategy	Which type of Entry strategy was adopted for India?	Direct entry
Benefit	Was it beneficial?	Yes
Marketing technique	Is your marketing technique specialised for India?	Yes, due to stiff competition
Performance of technical dept	Are you satisfied with performance of technical dept?	Mostly yes
Problems in technical dept	What is the biggest challenge company is facing in technical dept?	Nothing major
Overall sales	How do you rate the sales of Volkswagen in India?	Moderately satisfied, needs to improve a lot

Table 3

The responses obtained from the interview were collected and analysed as qualitative data. Such data is non-numeric in nature and thus cannot be quantitatively analysed. However, such data

sometimes gives the researcher more revealing answers as compared to quantitative data or data collected by survey, for example. Thus the responses obtained for the above questions indicated that the strategy of direct entry was the most suitable, as seen in literature review. The strategy was indeed influenced by political, economic and social conditions of the country. The strategy brought about no major disadvantages to VW establishment in India. Thus the strategy adopted by Volkswagen to enter the car market in India was indeed influenced by political, economic and social conditions of the country and has so far proven to be profitable for the company, though progress is slow and steady; it is expected to pick up gradually.

Conclusion:

India is considered as one of the greatest emerging markets in the world. India is also one of the world's biggest automobile markets. This large automobile market has attracted many automobile giants to reap the benefits of the Indian automobile market. Volkswagen, an automobile giant in its own right also made its foray into the Indian automobile market with the main intention of establishing itself as a major competitor in the Indian car market. Volkswagen entered India in 2001, with the VW Group India Company but it has grown and now exists as two different companies VW India Private Ltd and Volkswagen Group Sales India Private Limited (VGS IPL). Volkswagen's entry into India was a direct strategy, it entered the Indian car market with Skoda, which is a division of VW. **No table of figures entries found.** Volkswagen and the first production plant of Skoda was set up in Aurangabad, India. Volkswagen has been able to show an increase in its sales every year after its foray into the Indian car market. In 2009, Volkswagen recorded a staggering 59% sales growth which clearly shows its influence in the Indian car market.

This study is about the strategy adopted by Volkswagen to set up its manufacturing plant in India. The objectives of this study are to analyse the strategy selected by Volkswagen to enter India and what were the rationales behind following such a strategy to enter India. In order to fulfil the objectives of this study requires two types of data, primary data and secondary data. The primary data is obtained through a research based on holding a brief and formal interview with two of the management staff of VW and the secondary data is obtained by the insights provided through the various data collected for literature review.

The successful entry of Volkswagen into India is mainly because the strategy adopted by Volkswagen, the successful strategy adopted by Volkswagen to enter into India is the direct method. It entered the Indian market through one of its divisions, Skoda and a manufacturing plant for Skoda was set up in Aurangabad, India. Volkswagen tested the potential of the Indian car market through its Skoda series of cars and once it realised the potential of the Indian market when Skoda recorded an increase in its sales figures year after year. Volkswagen then launched its signature series of cars the Volkswagen series in 2007 following the establishment of the Volkswagen manufacturing plant in Pune, India. The management of Volkswagen feel that the delay in introducing its signature series of cars in 2007 even though Volkswagen entered the Indian market in 2001 is because Volkswagen had opted for the safety first approach and were willing to tap the untested waters of the Indian car market only after the success of its division, Skoda.

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