business today

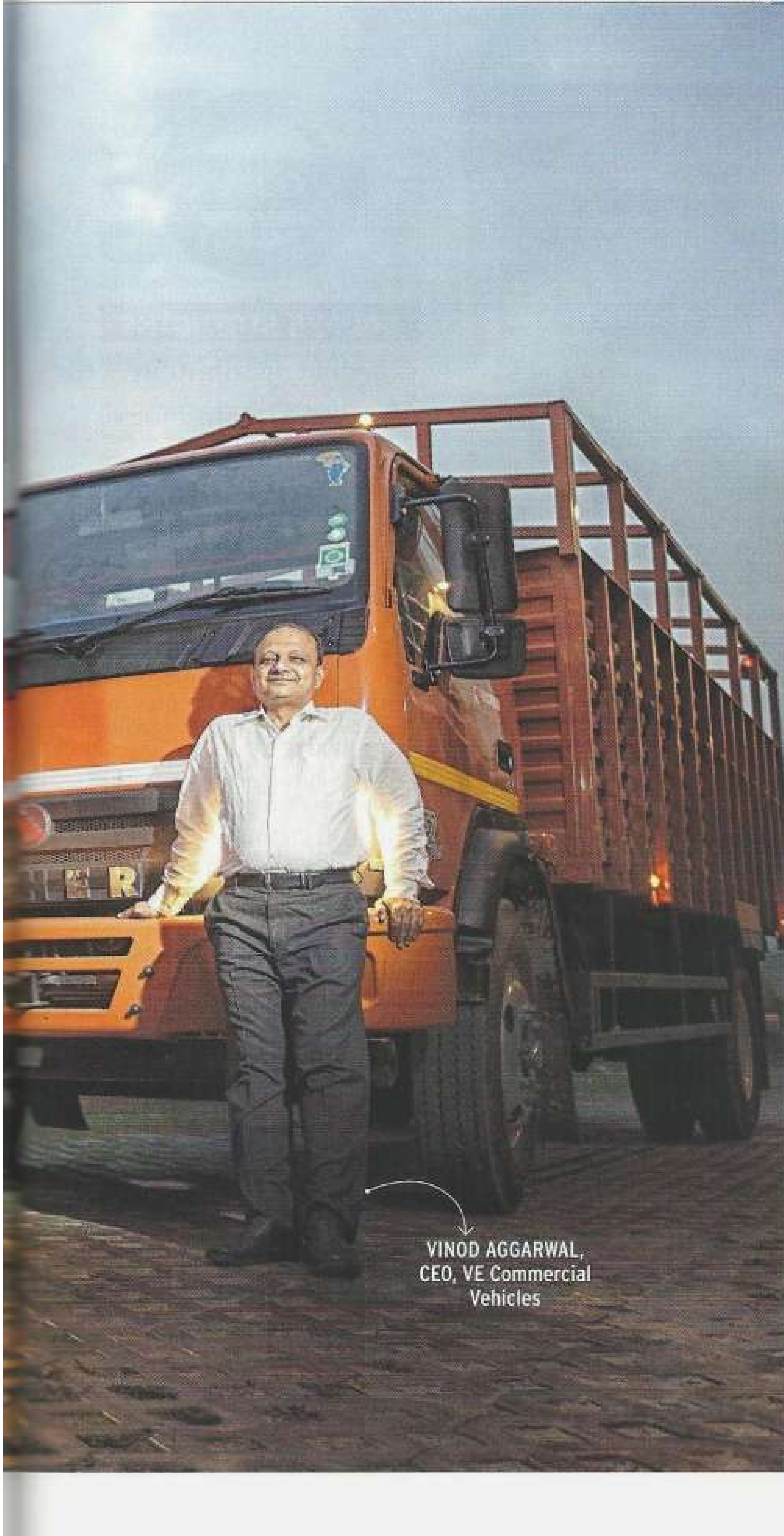
CASE STUDY Eicher-Volvo

The Power of Two

SIDDHARTHA LAL, MD and CEO, Eicher Motors

EXECUTIVE SUMMARY: *In 2008, Eicher Motors tied up with Swedish truck maker Volvo in its bid to become a larger player and build a global presence in the commercial vehicle business. Volvo, on the other hand, wanted to crack the small and medium-truck segment in India. This case study looks at how the two companies leveraged their respective strengths to achieve their disparate goals.*

By SUNNY SEN



VIVAN MEHRA/www.indiatodayimages.com

At the newly constructed headquarters of Eicher Motors in Gurgaon, a 35-tonne spiral staircase made of steel hangs from the ceiling. The flight of steps goes all the way up to the sixth floor of the glass-and-steel building, where Eicher Managing Director and CEO Siddhartha Lal sits in a corner office. The building is a "green" structure, which means it is constructed largely with renewable material and is energy-efficient. It is also a reflection of Lal's business mantra of maximising the use of available resources.

Efficient utilisation of resources is the main reason why Lal, a third-generation member of the family that controls Eicher, joined hands with Swedish truck maker Volvo in 2008 to form VE Commercial Vehicles (VECV). Lal wanted to boost Eicher's commercial vehicles business in India and also build an overseas presence. Eicher probably could have done that on its own but it would have required a vast amount of time and effort. In 1997, for instance, Eicher started developing a heavy truck to compete with market leaders Tata Motors and Ashok Leyland. It took Eicher six years and ₹25 crore to build the truck. There was also the risk of failure, and Lal didn't want to take that chance.

Eicher was set up in 1948 to import tractors. It entered the commercial vehicle business in 1986 when it began selling a six-tonne fully imported truck from Japanese auto

EICHER, VOLVO MUST ANTICIPATE AND RESOLVE TRICKY ISSUES

A joint venture's initial success is often linked to the '4Cs of Partner Fit': Convergence, Complementarities, Commitment and Compatibility. The Volvo-Eicher joint venture demonstrates that the partners have 'convergent objectives' in terms of wanting to crack into India's large commercial vehicle market against established incumbents like Tata Motors and new global rivals like Daimler.

They also bring complementary strengths to the relationship – Volvo contributes its global brand and experience, world-class technology and processes whereas Eicher provides local market understanding along with frugal manufacturing capabilities. Both partners seem committed to the relationship as evidenced by their growing investment in it over time, and their working styles seem compatible enough.

While things currently look fine, some tricky issues might arise in the future. Volvo has gradually learnt what it takes to compete effectively in India. It has invested more into the joint venture over time as compared to Eicher. Will the mutual dependence and bargaining power between the partners become more asymmetric? Volvo may want more control and a bigger say in decision-making and it may not value Eicher's contribution to the same extent as before. Many prior ventures between multinational companies and Indian players have faced these issues, and consequently ended fractiously. Hopefully, Eicher and Volvo would anticipate these evolving issues and have effective ways to address them.

"Both partners seem committed to the relationship... and their working styles seem compatible enough"

PRASHANT KALE, Professor of Strategy at Rice University and Learning Director for Program on 'Managing Strategic Alliances' at the Wharton School

VOLVO'S STRENGTHS

Global distribution

Advanced technology

Financial muscle

maker Mitsubishi. The partnership ended in 1993. Eicher continued building its own trucks until 2006/07 when Lal realised the growing demand for technologically advanced trucks and buses in the rapidly expanding Indian economy. He needed a foreign partner to make a great leap forward. "In order to crack the market we needed more muscle – funds, systems and technology," says Lal, who had previously turned around Eicher's iconic Royal Enfield motorcycle unit (see *businesstoday.in/re-bullet*).

In Volvo, the world's second-largest truck maker after Daimler AG of Germany, Lal found a partner which had all that. Eicher moved its truck and bus business to a new company, the joint venture VECV, into which Volvo pumped about ₹1,082 crore and added its heavy trucks distribution business to buy a 50 per cent stake. Volvo brought advanced manufacturing technology and set up new processes to improve Eicher's after-sales service. The partners set up a component distribution centre, which ties into the after-sales service, to monitor inventory at retail outlets and Eicher's warehouses.

How does Volvo benefit from the tie-up? The European giant was until then supplying heavy trucks to select industries such as mining and construction in India. It was eager to expand its commercial vehicle business in the country, but Volvo trucks were costlier than products sold by local rivals. "We (Volvo) realised we wanted to participate in India's mainstream business, for which we had to produce trucks at a lower price," says Philippe Divry, Senior Vice President and Director at VECV.

Divry says Volvo had two main goals while forming the joint venture. One was to get a significant market share in India, and the other was to make India a base for exports to other emerging markets. But vehicles made in India were not good enough to export. Volvo knew if it completely overhauled the Eicher platform the cost would jump significantly. It had to selectively inject technology to make the products better. Eicher's low-cost manufacturing base offered Volvo that opportunity. "Frugal engineering is something all global manufacturers are looking at," says Abdul Majeed, leader of automotive practice at consultancy and audit firm PricewaterhouseCoopers (PwC).

Vinod Aggarwal, CEO of VECV, says a global truck maker would have had to spend three to four times the amount Eicher did in developing a new truck or setting up a new factory. Aggarwal says VECV has invested ₹1,300 crore to expand manufacturing and distribution capacity.

EICHER

EICHER'S STRENGTHS

Mass-market products

Frugal engineering

Experience of working in an emerging market

TIE-UP WILL RESHAPE EICHER'S PRESENCE IN INDIA, OVERSEAS

The Volvo-Eicher joint venture, VE Commercial Vehicles, is a perfect marriage wherein each individual company has its own strengths and, at the same time, fills the gaps of the better half. This partnership will definitely reshape Eicher's presence in the Indian and overseas markets, as it will bring in Volvo's expertise of trucks manufacturing along with leveraging its global network to enhance Eicher's overseas business.

The venture will help both companies fill their gaps. It will help Eicher re-align its product line to address the changing scenario for both domestic as well overseas markets. In case of Volvo, it will help pave the way for it to address the high-volume market of low-cost medium- and heavy-duty trucks, as well as build upon the low-cost manufacturing base available with domestic manufacturers in India. This partnership will benefit Volvo in a similar way, just like the recent move of establishing an engine assembly line at Pithampur to meet the requirements of its European market.

VE Commercial Vehicles will also be able to reap benefits of the brand proposition that Volvo has already created with the masses in India because of its luxury buses and value-added trucks, which are considered synonymous with quality, comfort, and reliability. It definitely assures customers that their expectations will be met with respect to the products coming out of this joint venture.

Needless to say, in the long run, VE Commercial Vehicles will be one of the prime competitors in India's low-cost trucks market, strong enough to compete with global majors like Tata Motors and Ashok Leyland.

"VE Commercial Vehicles will be one of the prime competitors in India's low-cost trucks market"

VIJAY KAKADE, Director, Automotive & Transportation Practice, Frost & Sullivan

improve processes and set up an engine factory at Pithampur in Madhya Pradesh. The factory can make 100,000 engines a year. VECV will export 30 per cent engines annually to Europe, starting this year. These engines will conform to Euro-VI emission standards – to be implemented in Europe from January 2014. In the next two years, VECV plans to invest ₹1,200 crore to develop products, set up a bus body plant and expand capacity, he adds.

The investments have started showing results. The market share of Eicher-branded light and medium trucks grew to more than 31 per cent in 2012 from 27 per cent in 2008. In the heavy vehicles segment, VECV's share has risen by a percentage point every year to five per cent. In buses, the market share has tripled to 14 per cent. Eicher's revenue from the trucks and bus business has more than doubled since forming the joint venture to ₹5,443 crore in 2012. VECV has a cash surplus of ₹700 crore and posted a net profit of ₹336.66 crore in 2012.

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Exports to neighbouring countries such as Sri Lanka, Nepal and Bangladesh contribute four per cent to VECV's total sales. In the next few years the target is to take this to 12 per cent by exporting vehicles to Southeast Asia, West Asia and Africa. "They (Eicher) decided to break into the Asian market but could not do so without a joint venture model," says Jeffrey W. Wilmot, India country manager at PTC Inc. which offers services such as product and supply chain management.

Aggarwal of VECV says Eicher will now be the Swedish company's fifth truck brand globally, after Volvo, UD, Renault, and Mack. "The world opens up for us by using their (Volvo's) distribution network." Exporting Eicher-branded vehicles benefits Volvo as well, because the low-cost Eicher vehicles offer Volvo a chance to boost its presence in emerging economies without diluting its brand image. "In joint ventures like these, a learning from one developing country is being taken to other countries," says PwC's Majeed.

Sitting in the Gurgaon headquarters, Lal recalls he initially had doubts about VECV's success. But he has managed to prove his own doubts wrong and reoriented Eicher's commercial vehicle business. ◆

What can we learn from the Eicher-Volvo joint venture? Post your comments at www.businesstoday.in/casestudy-eicher. The best response will win a copy of the Harvard Business School Press pocket mentor. Previous case studies are at www.businesstoday.in/casestudy.