Case Study

MAHINDRA RENAULT JV: WHY IT'S ON THE END OF THE ROAD ?

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INTRODUCTION

Summers of 2007 saw the automotive sector reporting the 'super'-success of the Mahindra Renault's -Logan. With the product of Joint Venture (JV) signed in 2005 between Mahindra & Mahindra (India) and Renault (France) and the formal launch of the car in April 2007, 'Logan' had become the largest selling car in its category – the "C" segment sedan amongst its competitors like Tata Indigo, Honda City and Maruti SX4.

Logan offered two petrol models and one diesel variant, priced between Rs. 4.28 lakh and Rs. 6.43 lakh. According to the analysts then, Logan's two USP's i.e. price and that it was most spacious car, were working in its favor. The enthusiasm was ubiquitous and was reflected in various awards and accolades Logan earned to its credit like "HT car of the Year 2007", "JD Power's highest ranking for Mahindra Renault Logan in the New-Vehicle Design" etc.

However, the year 2008 had an all together different tone and mood. The sales had started to decline and so much so that it had to cut on its production. And by April 2010, Mahindra and Renault decided to call off their partnership and exit the joint venture.

What could have gone wrong with the sales of the 'once' so popular car within a year? What might be various problems with the joint venture that within five years of its formation, Mahindra and Renault decided it exit the partnership? Why did the Mahindra – Renault JV fail? What is the significance of the Industrial policies in a country and how critical they are in the success or failure of a JV?

A joint venture can fail only because of two reasons; either because there is a problem with the 'venture' or with the 'joint'! *- Anonymous*

About Mahindra & Mahindra(2005)[1] : Mahindra had embarked on its journey in 1945 by assembling the Willys Jeep in India and stood at over US $6 billion Company in the year 2005. Mahindra Group is among the top 10 Industrial Houses in India and the M& M is the only Indian company among the top five tractor manufacturers in the world and is the market leader in multi-utility vehicles in India. The Group has a leading presence in key sectors of the Indian economy, including trade and financial services (Mahindra Inter-trade, Mahindra & Mahindra Financial services Ltd.), automotive components, information technology & telecom (Tech Mahindra, Bristcone), and Infrastructure development ((Mahindra Gesco), Mahindra

Holidays & Resorts India Ltd. With over 60 years of manufacturing experience, and over 40,000 employees on its role all over the world, the Mahindra Group has built a strong base in technology, engineering, marketing and distribution which are key in its evolution as a customer-centric organization and thus enjoys a leadership position in utility vehicles, tractors and information technology, with a significant and growing presence in financial services, tourism, infrastructure development, trade and logistics. The Mahindra Group was an embodiment of global excellence in five continents and has the benefit of a strong corporate brand image. It has a partnership with International Truck and Engine Corporation, USA. It has appeared in the Top 200 list of the Forb's most reputable companies in the world and has appeared in the list of top 10 Indian reputable companies.

About Renault[2] (2005): Founded in 1899, Renault is a French automaker with industrial and commercial presence in 118 countries and it designs, develops, manufactures and sells innovative, safe and environment-friendly vehicles worldwide. It's over 100,000 employees contributes to a strategy of profitable growth based on three key factors-competitiveness, innovation and international expansion. Renault is Europe's leading brand, the only vehicle manufacturer to have eight cars with maximum five-star Euro NCAP rating and the winner of the Formula 1 World Championship for Constructors and drivers in 2005. Due to its alliance with Nissan, it was the world's fourth largest automaker in the world. The company's most successful car to date was the Renault Clio, and its core market was France. The Dacia Logan – car produced jointly by Renault and its subsidiary 'Dacia' of Romania was doing very well all over. Since its launch in 2004, around 4.50 lakh Logan have been sold worldwide in 51 countries in five continents.[3]

About their Joint Venture (2005): In February 2005, Mahindra & Mahindra and Renault decided to join forces to produce and commercialize the Logan in India through their newly formed company Mahindra Renault Pvt. Ltd. (MRPL). It was expected to be success with people wanting an inexpensive, no frills car. The joint venture was a 51:49 partnership between Mahindra & Mahindra and Renault. The understanding was that purchase, engineering and quality would be Renault's domain and finance, HR, distribution and communication would be taken care by Mahindra. The state-of-the-art Logan facility in Nashik would offer body shop, stamping shop, a paint shop with a top quality pre-treatment and an assembly line specific for the Logan. The office of Mahindra Renault was established in Kandvali, in Mumbai about 1 km from the Mahindra's office. The HR department started recruiting personnel for the departments like vendor development, research and design, quality assurance etc. Some employees from Mahindra & Mahindra were also instituted in the Mahindra Renault office.

Making of Logan (2006 & 2007)[4]: In May and August, 2006 the first road trials of the car in making, were done when the trial vehicles were put through thorough durability testing on Indian roads, besides accelerated tests on the Renault test tracks. By September 2006, the JV went full swing with the beginning of the trial production of Logan. The vendor development and the quality assurance team were busy carrying assessments of all the suppliers in order to provide the market with a world class product. The euphoria was reflected in Mahindra and Renault's decision to extend their strategic alliance and sign another MOU to set up a Greenfield facility with a capacity of 500,000 units per year with the 50:50 partnership among M&M and Renault Nissan.

Launch of Logan (2007)[5]: April 3rd 2007 was an eventful day in the history of the automotive industry as it saw the unveiling of the new car – ***Logan***, a true blend of best of the East and West and a synergized product of the world's two brands who were leaders in their domains.

"I am proud that the Logan is the product of a match made in heaven between Mahindra and Renault," said Mr. Anand Mahindra. *"Our JV has been much like a marriage. Over the last 2 years, the JV teams have worked together, learned to understand each other's cultures, sometimes squabbled, but always leveraged each other's strengths and ultimately produced something they are both very proud of. The partnership between Renault's design, precision and technology and Mahindra's ruggedness, fuel efficiency and customer centricity will, I think, set new benchmarks for the Indian automobile market."* (Mahindra Newsletter, 2007)

Mr. Carlos Ghosn, President & CEO, Renault SA echoed the euphoria in the words like "...a new step in Renault's global expansion. It marks the start of Renault sales on the Indian market and sees the first right hand drive version of Logan created to meet the needs of our Indian customers. I would like to congratulate the Mahindra Renault team here in India for demonstrating how much can be achieved in a very short period of time." said (Mahindra Newsletter, 2007)

The story further (2007-2010): And true to its projection, Mahindra Renault sold 2,890 Logan(s) in the month of July 2007, making it the top selling brand in its category. Logan received a resounding response from customers in the cities where it was launched. Mr. Rajesh Jejurikar, MD, Mahindra Renault Pvt. Ltd., said[6], *"The Logan has evinced phenomenal response since its launch as evident from the bookings. Our dealers had to deal with over 25,000 inquiries so far. This is very significant considering that* *the Logan has been launched in only 40 percent of the markets."*

"Our challenge now is to meet customer demand for the car," Mr. Jejurikar had concluded

Within eight months of its launch, Logan received several distinctions with respect to product performance in the J.D. Power Asia Pacific 2007 India Initial Quality Study as it outclassed all its competitors. The Logan was ranked as the 'Best Entry Midsize Car in Initial Quality', with a score of 65 PP100, i.e., problems per 100 vehicles ahead of other leading passenger cars, indicating a high level of satisfaction experienced by customers.

However the end of the year 2007 saw the reversal in the trend of the sales. And by mid-2008 the sales of Logan had declined so much that Mahindra Renault Pvt. Ltd. (MRPL) had to cut down its production at the Nashik plant by 30-40%. Live-Mint[7] dated November 2008 had reported that the car's sales have been declining due to an economic slowdown and high interest rates. As the sales data put by the company, the sales had reached a peak of 3068 units in March, gradually declining to 1531 units in May, 1464 in August and hitting the bottom with a sale of only 1067 cars in October, which otherwise was supposed to be a festive season attracting more customers to the market.

Though the decline in sales was being witnessed by the entire automotive sector but the situation was little alarming especially for MRPL and its vendors, as they had had very optimistic projections so far. But by and large, given the fact that the entire economy was hit by recession and because of the increased interest rates, the decline in sales was considered to be more of economic risk rather than business risk for MRPL.

Meanwhile, MRPL was finding different ways to drive up the sales. It offered to sell Logan to its suppliers and business associates at a discounted price. It also started to export the car to South Africa by the end of year 2008.

However, the sales did not pick up even in 2009. And as a consequence of the dismal sales, the relationship between M & M and Renault also starting getting sour. There was news in the market that Renault was approaching Bajaj Auto to replace M&M in the venture.[8] This created further dent in the sales of Logan. The blame game went to the extent of Renault feeling that Mahindra had erratic sales and distribution strategy and therefore the sales were not picking up and on the other hand Mahindra felt that there was a major need for re-engineering the car for making it more appealing to the Indian customers. The analysts, however, felt that among the various reasons that were contemplated for the poor sales figure of Logan, its price and its design topped the list. Of course the non-availability of the spare parts was also a problem. According to the analysts Logan was not a very cost effective car. The stronger competing models in the market like Maruti Swift Dzire and Tata Indigo wore a more competitive price tag, putting a pressure on the sale of Logan. Logan was unable to play the pricing game primarily because of two reasons. First one was that only 50% of its components were indigenous against relatively a much higher percentage of localization by the other players in the market; and second was the dual excise duty structure, which is 8% for small cars (less than 4 metres) and 20% for the larger cars like – Logan (4.24 metres). The companies which were not under any contractual obligations had trimmed the length of their car to take the advantage of the lower excise for small cars (Tata Indigo-CS). However, unfortunately this did not work for Mahindra Renault's Logan. M&M had suggested reducing the car's length to 4 metres to have it qualify for the lower, 8 per cent excise duty. But Renault rejected the idea because it did not want to alter the car's global platform.[9] For the similar reasons certain features like fuel lid opener, boot opener, direction of windshield wipers, CD player instead of MP3 player etc. could not be altered to adapt to the requirements of the Indian customers. Even though the car had been a great success globally, but failed to do well in India. The single product –JV, which had been selling less than 500 units in the last few months of 2009, had already posted a loss of Rs.490 crore in 2008-2009. All in all, the Mahindra-Renault Rs.700 crore venture appeared to be doomed by the end of the year 2009. Mahindra and Mahindra was already reinstating many of its employees, who had joined the JV with Renault, back into the parent company.

By 2010 there were news that major restructuring would take place in the MRPL JV. There were speculations that Mahindra may not make any new investments in its JV with Renault and was likely to hand over the management and control of the JV to the latter (DriveInside.com | Saturday March 27, 2010).

16th April, 2010 came as a "full stop" to the MRPL joint venture. The Times of India dated 17th April, reported that[10], - *"After months of deliberations, Carlos Ghosn-led French carmaker Renault has finally decided to exit its loss-making joint venture with Mahindra & Mahindra (M&M) for the Logan, handing out full control to the Indian auto major that will now reposition the car with a new branding and name along with lower price."*

The deal was that M&M would buy Renault's 49% equity and gain full control. Renault will continue to support Mahindra and the Logan car through five-year license agreement to supply purchasing engines, transmission and key components. M&M will continue with the Renault name and logo on the Logan till the end of 2010 and over the period of 18 months, it will rename the car and use only M&M's logo. Renault would now be paid royalty fee on the sale of the car.

"The new agreement will give us the opportunity to chart out a new strategy to help drive the Logan brand in India which will also include engineering changes, in keeping with customer requirements,"[10] M&M's automotive sector

president Pawan Goenka commented.

And by April 25th 2011, just over one year since the break-up of the JV, Mahindra & Mahindra renamed the "Logan" sedan as "Verito", thus dropping all the affiliations with Renault.

TEACHING NOTE

Introduction: Automotive sector in India is one of the largest and fastest growing globally and its passenger car and commercial vehicle manufacturing industry is the seventh largest in the world. The collaborative phase in the automotive sector started in the early 1980's through a joint venture between Maruti (a government of Indian undertaking) and Suzuki Motor Corporation from Japan to manufacture four wheelers. Gradually with de-licensing, the automotive sector saw a remarkable growth and there has been no looking back since then. The automobile policy of 2002, permitted complete foreign equity investment in manufacturing of automobiles and components and led to entry of international players like Hyundai, Mercedes Benz, Toyota, Ford, General Motors, Mitsubishi, Daewoo, Renault and the likes through collaborative arrangements. Some of the joint ventures have been super success and some have not been so successful.

Case Synopsis: "Mahindra Renault JV: Why it's on the end of the road?" is a case written to accentuate and bring out issues that arose in the setting up of this successful cross-border joint venture. The case proposes that in general there could be just two reasons for the joint venture to fail and they are that either there is a problem in the "joint" or in "venture". Taking the case of Mahindra & Mahindra's joint venture with Renault Ltd. the case first presents the initial success story of the collaboration that first took place in 2005. "Logan"-the product of the Mahindra & Mahindra and Renault was a 'C-segment' sedan which was offered in two petrol models and one diesel variant, priced between Rs. 4.28 lakh and Rs. 6.43 lakh. The car was a success as soon as it hit the market and won various awards like J.D. Power Asia Pacific 2007's 'Best Entry Midsize Car in Initial Quality', with a score of 65 PP100, i.e., problems per 100 vehicles ahead of other leading passenger cars, indicating a high level of satisfaction experienced by customers. However, gradually not only did the sales of the car dip but also the relationship between the two partners started getting foul. The case presents the happening of all significant events in the progress of this venture in the chronological order.

Teaching Objectives and Issues: This case has been written for classroom discussion of a MBA course or any other course in international business. It however, does not intend to illustrate either effective or ineffective handling of the decision making in a business situation. The information in the case is drawn from public sources.

The key issues in the case are- what could have gone wrong with the sales of the 'once' so popular car within a year? What might be various problems with the joint venture that within five years of its formation, Mahindra and Renault decided it exit the partnership? Why did the Mahindra – Renault JV fail? What is the significance of the Industrial policies in a country and how critical they are in the success or failure of a JV?

The teaching objectives for the case are to familiarize the students with various perspectives in a joint venture which might not surface in the initial phase of the collaboration but might creep into the arrangement as venture progresses. The consequence of lack of mutual trust and respect can be as dire as the culmination of the partnership.

To enumerate the issues that can be discussed within this case in international business are:

1. What are the various factors in the context of this case that led to the failure of this cross-border joint-venture?
2. What are the specific issues that must be considered in the original agreement of a joint-venture, in order to avoid any potential problems?
3. Do you think Renault's stance is justified in this case?

Case Analysis:The cues that can be picked up from the case to answer these questions are:

1. As discussed in the case, though it was clear that purchase, engineering and quality would be Renault's domain; and finance, HR, distribution and communication would be looked after by Mahindra, the lack of flexibility in their assigned role led to the problem in the "joint". Mahindra, being an Indian Automobile company since long, was in a better position to understand the requirements of the Indian customers. So the suggestion on re-engineering by Mahindra on issues discussed in the case should have received more weight. Of course, the apprehension of Renault in not fiddling with the global image was understandable but such issues should be resolved in the original agreement and it is very essential that the partners are willing to make the changes, in the interest of the joint venture.
2. Further, when all the car companies in that segment were changing the length of their cars in order to take the benefit of lower excise duty, MRPL could not because of the rigidity on Renault's part.
3. On very similar lines is the issue of inflexibility by Renault in not being open to indigenous purchase of the components. Of course it is understandable that the foreign partner is very quality conscious, but atleast this option could have been explored in order to cut on cost. This could be a great discussion point as the Indian Auto Ancillary Industry is renowned in the world for its quality of products.
4. Also, although firms may enter into collaborative arrangements with complementary capabilities and

objectives, their views regarding things like desirable performance standards may evolve quite differently over time.

5. The case could also be discussed to appreciate the significance of the Industrial policies in a country and how critical they are in the success or failure of a JV taking the instance of the change in the excise duty of the cars with a certain length.

Renault's stance in this case appears to be very conservative, but is quite understandable given the fact that the model was running successfully across the globe. So obviously, Renault did not find making any alterations in the product convincing enough, in the Indian market except its right hand drive version. This aspect of the case might lead to a very stimulating discussion in the class where the counter argument could be that the success of the product in a foreign market essentially needs localization/customization of the product.

(Footnotes)

[1]Sourced from

http://www.mahindra.com/OurGroup/Overview.html

and the press release during the signing of the MOU between Mahindra, Renault and Nissan for setting their production site in Chennai.

[2]http://en.wikipedia.org/wiki/Renault

[3]Sourced from : http://www.hindu.com/2007/04/04/stories/2007040401321700.htm

[4]Sourced from M & M's newsletter (Jan-Feb. 2007) available online on the link - http://www.mahindra.com/Enewsletter/JAN-MAR07/html/coverstory.html

[5]Sourced from M & M's newsletter (Jan-Feb. 2007) available online on the link - http://www.mahindra.com/Enewsletter/JAN-MAR07/html/coverstory.html

[6]http://www.moneycontrol.com/news/business/mahindra-renault-logan-receives-great-response-_283053.html

[7]http://www.livemint.com/2008/11/07220514/Mahindra-Renault-halves-Logan.html

[8]http://www.driveinside.com/News/Headlines/7NYXVE/Mahindra-Renault-partnership-unstable-thanks-to-the-Logan%E2%80%99s-falling-sales.aspx

[9]http://www.driveinside.com/News/Headlines/7NYXVE/Mahindra-Renault-partnership-unstable-thanks-to-the-Logan%E2%80%99s-falling-sales.aspx

[10]http://timesofindia.indiatimes.com/biz/india-business/Renault-to-exit-Logan-JV-with-Mahindra/articleshow/5823117.cms