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Savitribai Phule Pune University

(Formerly University of Pune)

Department of Management Sciences (PUMBA)

Executive MBA

2nd Year (Semester –III) External Exam November – 2015

303(F) International Business Environment & Global Competitiveness

Time: 2hrs. **Marks: 50**

Instructions to candidates:

1. Attempt any 5 questions out of 7 questions.
2. Each question carries equal marks.
3. Give Examples wherever necessary.

1. What are major issues in settlement of international trade disputes? What are the methods available to resolve such disputes? Discuss.

2. Critically Examine the following international trade theories
   a. Theory of comparative advantage
   b. Leontief Paradox

3. Explain the key factors which you will keep in mind while investing in a country like China and Russia?

4. What are your suggestions to Indian Government to improve India's position in Global competitiveness ranking from ease of doing business in India?

5. Narrate with examples how the business world would look in 2020 using globalization concepts as explained by Kenichi Ohmae.

6. Discuss the role of OECD, G8, G33 and World Economic Forum in international business? What do you think are the key factors which India should discuss in these forums in 2016?

7. Case Study

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 best selling 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 was 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 includes 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 lower-priced 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
Volkswagen[1]	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.

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[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?