

K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH

Class: PGDM - A and B 2017-19 BATCH

Business Perspectives in Global Context

I TRIM END TERM EXAM

Date : 29/09/2017

Marks: 25

Duration: 2 hours

- 1) **Analyse the following case study and present your recommendations based on the key takeaways from it.** (10)

The Background

“I see myself as a venture capitalist and I have to constantly relocate resources to newer ventures”. – Mr Anand Mahindra

The Mahindra group has global ambitions and is growing its footprint globally by acquisitions. When Ssangyong, a South Korean company came up for sale due to bankruptcy, Mahindra saw a good opportunity to expand its products and market. Ssangyong had strong technical background with products like Musso (in collaboration with Daimler Chrysler). The acquisition is expected to result in synergies in areas of product development, and sourcing. Earlier, Renault Nissan was expected to bid but pulled out after initially expressing its interest.

Mahindra & Mahindra was named as the preferred bidder to buy Ssangyong (The Economic Times Bureau, 2010). Mahindra acquired 70% stake in Ssangyong Motor Company Limited, South Korea for USD 463 million (about Rs.2105 crores) in March 2011. With this, Ssangyong became a subsidiary of M&M. The move synergised the financial, sourcing and marketing capabilities of M&M with the technological capabilities of Ssangyong. This will provide M&M an opportunity to introduce premium Sports Utility Vehicles (SUVs) in the Indian market and strengthen its position in Utility Vehicle (UV) segment (Business Line Bureau, 2010). It will also improve the global footprint of M&M and help it to market itself better globally as Ssangyong has a dealership network across 98 countries. M & M will be able to strongly utilize the strong R & D capabilities of Ssangyong. Ssangyong will pave a way for Mahindra's entry in European Markets as it is two cycles of development ahead of Mahindra. But with about 70% of SsangYong's sales to Europe, currency fluctuations also pose a substantial risk.

Pawan Goenka, president - automotive and farm equipment sectors, M&M, said: “The coming together of Mahindra and SsangYong will result in a competitive global UV (utility vehicle) player. Together with its financial capability, M&M offers competence in sourcing and marketing strategy, while SsangYong has strong capabilities in technology. We are committed to leverage the combined synergies by investing in a new SsangYong product portfolio, to gain momentum in global markets.” He added, “There is an opportunity to introduce a premium portfolio of SUVs in the Indian market, providing a new growth avenue for SsangYong and further strengthen our dominant position in the UV segment.”

“SYMC will continue to function as an independent entity, with a primarily Korean management. There are strong complementarities between the SsangYong and M&M product portfolios, providing an opportunity to create distinct positioning. The wide sales and distribution networks and complementary products lines will provide access to many overseas markets for both companies,” the M&M Press release stated. The labour union of SYMC, M&M and SYMC have also signed a tripartite agreement with provisions for employment protection, long-term investment and a commitment for no labour disputes.

The Goals

When M&M took charge of Ssangyong Motors in March 2011, it set itself “five key directions” to work on. One was to increase the sales immediately, two, to build a stronger product pipeline, three, develop brand and network, four, create strong internal capabilities in terms of people, and five, achieve a financial turnaround. M&M has reasonably achieved as per the script. Ssangyong sold 1,13,000 units in 2011 and hopes to wrap up 2012 with 1,23,000 units. As for products, Korando Sports launched in January 2012, is doing well. They are working on

electric powertrain and transmission which neither of them could have justified on standalone basis. As a part of building brand, showrooms are being spruced up and new dealers are being roped in.

As for financial turnaround, the losses in 2011 was around USD 80 million but the first quarter of 2012 saw a positive Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). Inclusion of Ssangyong in the Mahindra group helped group's net turnover in 2011-12 to increase by 60.69% to Rs 59,745 crores. The profit before exceptional items and tax was Rs 4123 crores as compared to profit of Rs 4311 crores in the previous year (2010-11). The sluggish growth in profit in the year 2011-12 was also, to some extent, due to inclusion of Ssangyong's results (Mahindra & Mahindra Limited, 2012). With the financial turnaround of Ssangyong, M&M will be on course and expects to reap benefits (Gopalan, 2012).

The success depends upon two sets of people working for two companies who have to think together without compromising on either entity they are working for. This is the challenge.

The Story in 2017

Mahindra's acquisition of South Korean car maker SsangYong is bearing fruit after six years of nurturing as the latter turned profitable in 2016 for the first time in nine years.

SsangYong, acquired by the Indian utility vehicle and tractor major for Rs 2,100 crore in 2010, has reported a net profit of 23 billion South Korean won (Rs 128 crore) during the nine months ended September — the first time since 2007. In 2015 (Jan-Dec), the loss was 61.9 billion won.

SsangYong posted net profits for the four consecutive previous quarters on strong sales growth. The change is helped by rising volumes, led by the Tivoli, a new SUV launched in January 2015. Total sales volume during the nine months (Jan-Sept) rose 7.5 per cent; revenue grew 8.8 per cent. It showed a continued journey towards sustainable profitability, said Pawan Goenka, managing director, M&M.

Tivoli has turned out to be the best-selling vehicle from SsangYong in its 62-year history. In 2015, this compact SUV contributed 44% to total sales of 144,764 units. A total of 63,693 Tivolis were sold in 2015, broking the record held by another, Rexton, which had sold 54,274 units in 2004. Tivoli is breaking its own record in 2016, by selling more than 76,000 units till November.

Goenka, also the chairman at SsangYong, said the focus post acquisition had been to significantly invest in new products, brand and market development, cost reduction and the ability to derive synergies with Mahindra in various aspects such as platform sharing, sourcing and R&D. "There has been significant progress in all these areas and we continue to look for more opportunities in each area," he said. Early this year, Goenka had said there would be an investment of \$1 billion to develop new products at SsangYong over the next three-four years. "We have a fairly aggressive plan over the next four years and will work on various levers for the financial turnaround," he said.

"Although the profit was not enough, last year we made profit after nine years. Our current sales volumes are about 150,000 but with the launch of G4 Rexton, our target for this year will be 170,000 and 200,000 for 2018," Choi Johng-sik, global CEO of SsangYong Motor Company, said at a select press briefing in Mumbai. Choi said the company has set a target of selling over 2.4 lakh units by 2019 and cross turnover of 6 trillion South Korean Won with 3 per cent operating margin. G4 Rexton, showcased at the Seoul Motor show, is a big bet for SsangYong as it expects the SUV to increase sales by about one lakh units in the coming years.

Choi agrees the profit margin is still below the industry average of about 5 per cent. To improve cost synergies, SsangYong is working with its Indian parent Mahindra & Mahindra on a new D-segment joint platform, which will result into four SUVs, two for each of the companies.

Apart from this, the two companies will jointly develop a full-electric SUV by 2020 and are

considering a possibility of developing a hybrid vehicle as well. In a recent interview with *BusinessLine*, Pawan Goenka, Managing Director of M&M and Chairman of SsangYong, said that the joint development of the platform will help the two companies together save about \$70 million over a five-year period.

M&M will also help SsangYong develop its first connected car platform, which would be based on Mahindra DigiSense platform, currently used by M&M's commercial vehicles division.

"We would develop a Korean version of DigiSense with a lot more features. Then the combination of the Indian version and the Korean version of the platform will be launched for international markets," Choi said, adding that Tech Mahindra will build the telematics for the platform.

The Challenges Ahead

SsangYong, which used to export more vehicles than it sold in South Korea for years, saw a trend reversal last year when its domestic market became bigger. Exports had taken a beating due to currency challenges in the key market, Russia, where a weakening local currency reduced demand for imported vehicles. In early 2015, the company suspended exports to Russia. The focus on the domestic market increased. The firm sold 99,664 vehicles in the home market in 2015, 44% more than in 2014.

SsangYong is also trying to revive its export market with plans to re-enter the Russian market by setting up an engine plant and assembly base in Vladivostok, an underdeveloped part of Russia. Until 2014, SsangYong was selling about 35,000 cars a year in Russia.

But declining oil prices and tensions in Ukraine has cut down the overall Russian car market size by half since then, Choi said. Add to that, the 25 per cent import duty exemption that SsangYong was enjoying so far, expired last year, making its Russian operations unviable.

However, Choi said with new engine manufacturing facility, the company is expecting incentives from the Russian government, which will make the Russian operations viable again.

Overseas, the main challenge is in managing the foreign exchange risk in the current volatile macro-environment, building a distinctive brand and maintaining competitiveness, says Goenka. Many new markets have grown to become significant contributors to export volumes and among them, the notable markets are the UK, Europe and Iran.

- 2 A Are the philosophies of the management thought leaders from the second phase of management still relevant in today's context. Justify with examples focusing on any 02 theorists. (08)

OR

- 2 B Discuss the importance of strategic thinking in management as espoused by leaders such as CK Prahalad and Ram Charan.
- 3 A Explain (with example) the various factors that influence business in the global context. (07)

OR

- 3 B Throw light on Drucker's philosophy of management.