

Cause and Consequence of Ford Automobile Exit from India in 2021

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Abstract: American iconic automobile giant Ford Motor corporation has decided in September 2021 about curtailment of its operation and make an exit from Indian subcontinent. The decision was fueled by accumulated operating loss worth US\$ 2 billion ((Rs 14,600 crore) in last 10 years and faster decline of market share. Exit of Ford will be reckoned as departure of third US automaker after General Motors and Harley Davidson left Indian market. Ford exit would cause estimated job loss of about 4000 workers resulting from closing down of 300 retail outlets situated across the country. Economic loss will be in tune with forward and backward linkages as automobile manufacturing having some bearing on complementary items such as steel, auto components, spare parts, tyres etc. Ford had never received overwhelming response since it ventured into Indian market in 1995. The joint venture between Ford and Mahindra & Mahindra didn't work out which would have allowed former to manufacture cars at lower price. Ford had never been able to compete with market leader Maruti Suzuki which had been favorite among middle class and first-time buyers due to its affordability and impeccable service. Ford lost its appeal among price sensitive buyers when it had to hike price to keep up with its requirement for imported components. Post pandemic, market failed to provide signal of sustained profitability for US automobile manufacturer as purchasing power declined and uncertainty gripped the market for vehicles. Ford has decided to sell expensive cars in India through export and continue supporting dealers to service existing customers.

Keywords: Future uncertainty, Lackluster performance, Low competitiveness, Operating loss, Price sensitive consumer, Unaffordability.

1. Introduction

Ford Motor Company is American automobile giant headquartered at Dearborn, Michigan, United States. It was set up by iconic personality Henry Ford in 1903. The global multinational manufactures and retails cars and commercial vehicles under the brand name Ford and sells luxury cars in Lincoln brand since its takeover of later in February 1922. Ford earlier made its presence felt in India in 1926 but left India in 1953 due to unfavorable import restrictions. It made a gala comeback after liberalization initiated in 1991 with commencement of Mahindra Ford India Limited through 50:50 joint ventures with India based automotive and technology behemoth Mahindra & Mahindra. Ford runs two manufacturing

plants in India. One is located at Maraimalai Nagar, near Chennai of Indian state Tamil Nadu where wide array of cars including Ford Ecosport and Ford Endeavours are manufactured. The other plant is situated at Sanand of Gujrat which works on production of Ford models like Ford Figo, Ford Aspire and Ford Freestyle. Ford developed this giant car manufacturing in Gujrat in aspiration of Free Trade Agreement(FTA) with Europe which would provide car selling opportunity at European market for India based vehicles. But FTA didn't take place and prospect of accessing European market doomed consequently. Ford remained attentive in offering products to fulfill need of Indian customer and generating value through its services. Ford exerted effort to create India as center of excellence with supply of small cars and assurance of low displacement engines for domestic market and overseas sales. There was intense export driven approach to sale Figo, Aspire, and EcoSport in 70 different markets of the world. The capacity of Ford manufacturing was extended to generate 610,000 engines and 440,000 vehicles per annum. Ford left no stone unturned to appease customers as it opened nationwide dealership network to provide impeccable sales service. Till end of December 2020, Ford maintained 485 sales and service touchpoints spanning across 266 cities in India. Despite all production reinforcement and marketing strategies, sales of Ford automobiles were not encouraging. Ford would keep the option open for operation of Ford Business Solutions which would expand workforce strength up to 11000 to utilize expertise of software developers, R&D engineers, data scientist, finance and accounting professionals to leverage global operation and upgrade the value of its renowned brand.

2. The Factors to Influence Discontinuation of Ford Motors in India

The collaborative partnership and shifting of operations to India with the assistance of Mahindra & Mahindra didn't work out well. The objective of having partnership with India based carmaker in 2019 was to reduce expense for vehicle configuration and construction. But the collaborative approach fell apart across all emerging markets and in India as well in 2020. Ford had to follow solo operation in India and go-alone policy didn't do any good to the company. The effort of Ford to

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have strategic partnership with ridesharing tech company Ola for manufacture of electric scooters turned futile when later went ahead with self-reliance approach and constructed Future Factory adjacent to Krishnagiri in Tamil Nadu. The consistent good offering from Maruti Suzuki and South Korea's Hyundai Motor Co. kept their joint market share beyond 60 percent. Ford didn't succeed in expansion of its network of service center like local stalwart Maruti Suzuki. As it fell behind in terms of after sales service which is one of the criteria for car selection in Indian market, sales failed to pick up despite presence of heavyweight brands of Ford. The debut vehicle Ford Ikon launched in 1999, much touted as 'josh machine of India' failed to keep up with decade old Maruti Esteem. Honda City stole the thunder of Ford cars with its dynamic market presence and attention rendered by Indian automobile buyers. Ford could not keep up its appeal in competition with market leaders. High price, lack of word of mouth and decline in demand due to pandemic and economic downturn caused reduced demand for Ford vehicles. After 20 long years of presence in Indian market, Ford sold about 95000 units with financial years closing on March 31st, 2019 leaving it market share to a miniscule 2.75% when market leader Maruti Suzuki sold 2.7 million cars in financial year 2019 that assured its market share more than 50%. As per Federation of Automobile Dealers Associations, Ford India market share dipped to 1.42 percent in August 2020 which was at 1.9 percent about a year ago. Ford became late to make an impact with small car, never been trend-setter in sedan and failed to make a mark during economy SUV boom the way it was done by latecomer Renault. Ford as its predecessor GM had a tough time having a grip on how Indian market operate. The car market faced downturn in India in 2019 when economy showed slowdown tendency. Arrival of COVID aggravated car market performance badly. Ford failed to get a grasp on Indian market for long. It failed to convince Indian customers who were accustomed with low priced car with good built, low maintenance and reasonable mileage. Trust and loyalty factor had always been high for Indo-Japanese collaboration Maruti Suzuki and South Korean Hyundai. It was late for Ford to launch Figo in 2010 to join small car bandwagon. Indian customers had various options in hatchback segment by that time.

3. Possible Impact on Indian Market Post Departure of Ford Motor Corporation

The closure of Ford Motor corporation manufacturing plants at Sanand, Gujarat, and Chennai, Tamil Nadu, would adversely impact livelihood of 4000 employees and 150 dealer principals who remained functional at 300 plus outlets. The company had suffered a heavy loss worth \$2 billion in a span of 10 years and was compelled to write off non-operating assets worth \$800 million in year 2019. Ford Motor Co's president and managing director Anurag Mehrotra resigned from his position days after US automaker declared about closure of its operation in the Asian nation. The business became unviable for Ford with failure of partnership with Mahindra & Mahindra twice. Opting for partnership with Mahindra turned out to be worst mistake for its business venture running more than two decades. Ford

had been troubled by meagre sales and frail export despite heavy investment in Indian market. Ford had been trying for new partnership to survive till year 2023 but nothing emerged promising. In India, unemployment is a big drawback for its economy. Pandemic in 2020 and recession due to economic contraction affected job market severely. As per CMIE record, overall unemployment rate was 6.36 percent in September 2021. In urban sector the rate was 8.62 percent and for rural it was 6.06 percent during same time period. Unfortunately, unemployment is high for educated youth. When government is unable to create gainful job opportunities for national workforce, departure of world renowned MNC in automobile would not augur well for the economy badly hit by COVID 19 outbreak. The exit of Harley Davidson and Ford Motor corporation would send a wrong signal for prospective MNCs who are willing to invest in Indian market. It would have an unfavorable implication on foreign direct investment which generally acts as driving force for progressive developing economy. In post COVID situation, investment by foreign automobile giants would not be significant in India when car sales failed to gain momentum. The worldwide crisis of semiconductor scarcity caused serious impediment for manufacturing of passenger vehicles. As use of smartphone and personal computers went high during pandemic and vehicle use receded sharply, semiconductor companies diverted supplies towards superior margin electronics industry. Car sales in Indian market has become mostly seasonal. All major car manufacturers look for big ticket car sale during festive time. In other time, buyers thin out and automobile sales comes down to trickle. It would be more prominent in post COVID situation when purchasing power depleted and fear about uncertainty is not obliterated from customer's mind. Ford would cease production of vehicles for selling into Indian domestic market but continue manufacturing meant for export till 2022. Although beleaguered car manufacturers would wind down its operation in India but it would not let down its existing customers as it is committed to serve them with after-market service and support unabatedly. Federation of Automobile Dealers Associations of India (FADA) has appealed to Indian govt. to work out reparation for ill-fortunate automobile dealers and dealership employees.

4. Conclusion

The gradual exit of automobile giants would make foreign car makers skeptical about Indian market potentiality. It would cast a doubt in future foreign direct investment in automobile sector of India. Exit decision of Ford Motor Corporation is not an exceptional case. American automobile multinational General Motors closed its operation in 2019 after 13 years of its presence in India on account of plummeting sales and mounting losses. Italian automobile giant Fiat had to pull the plug from Indian market in 2019 as there was no hope for revival and growth with its small presence with Linea and Grande Punto. Fiat faced disadvantageous situation when BS-VI emission regulations were about to be enforced in India in 2020 but Fiat didn't have the capacity to switch from diesel engine. American super bike maker Harley Davidson closed its operation in 2020

after 10 years of its operation in India being failed to market its heavy-duty bikes to Indian customers. It got beaten by local manufacturer Royal Enfield whose approval rate and acceptance remained far higher. Not only in India, but across the world automobile companies are striving hard to conduct substantial makeover when pandemic wreaked havoc on their revenues. All are joining electric vehicle bandwagon with robust investment as it progresses to be future trend. As per record of International Energy Agency, worldwide electric cars have reached 10 million marks in 2020 after decade long positive growth rate. There was 43 percent growth in electric vehicle production in 2020 compared to previous year. Battery driven cars have majority stake in newfangled electric car registration in 2020. China is in the lead with 4.5 million electric vehicles and Europe made giant stride in 2020 with accelerated annual production close to 3.2 million. Electric vehicle is a different ball game in India where govt. is offering subsidy for electric vehicle production and incentivizing charging infrastructure. Budget declaration of 2019-20 assured tax subsidy loan for electric vehicles. The consistent rise of petrol, diesel prices made a dent on demand for oil run vehicles let alone cars from Ford, Honda and Toyota. The dominance of Maruti Suzuki sustained in Indian market owing to low price offering, impeccable service, extensive network, compatibility with Indian road and strong customer loyalty which had been missing for Ford since it made a big bang entry with Ford Ikon with catchy tagline josh machine. Models like Ikon, the Endeavour and the EcoSport created mellowed resonance but Mondeo and Fusion turned out to be damp squib. Although Ford faced tough time to keep its business up and running but it didn't compromise on its corporate social responsibilities. It sincerely funded and actively played roles in areas like

education, sustainability and auto safety. It painstakingly ran campaigns like Happy Schools, Sujal and Courtesy in India. But it's good work didn't seem pay off good dividend. It had always been beaten by auto market leaders in India like Maruti Suzuki and Hyundai. As pandemic hammered automobile buyers' sentiment, it would be impossible task for Ford Motor Corporation to recover its loss and secure its position in Indian competitive market. Once Indian business is wrapped up, Ford would allocate its capital to generate value in right areas which would help to attain sustainable profitability in longer term.

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