



Ambassador

SYNOPSIS

OF



HINDUSTAN MOTORS

“STRUGGLE FOR SURVIVAL”

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◆ Introduction

The case study is about **Hindustan Motors**, an automobile manufacturer from India. It is part of the **Birla group of industries**. The company was the largest car manufacturer in India before the rise of Maruti Udyog (MUL). It is the producer of the famous Ambassador car, widely used as a taxicab and as a government limousine. One of the original three car manufacturers in India, founded in 1942, it was a leader in car sales until the 1980s, when the industry was opened up from protection. Hindustan Motors launched various luxury cars like Contessa, Lancer, Opel Astra etc.

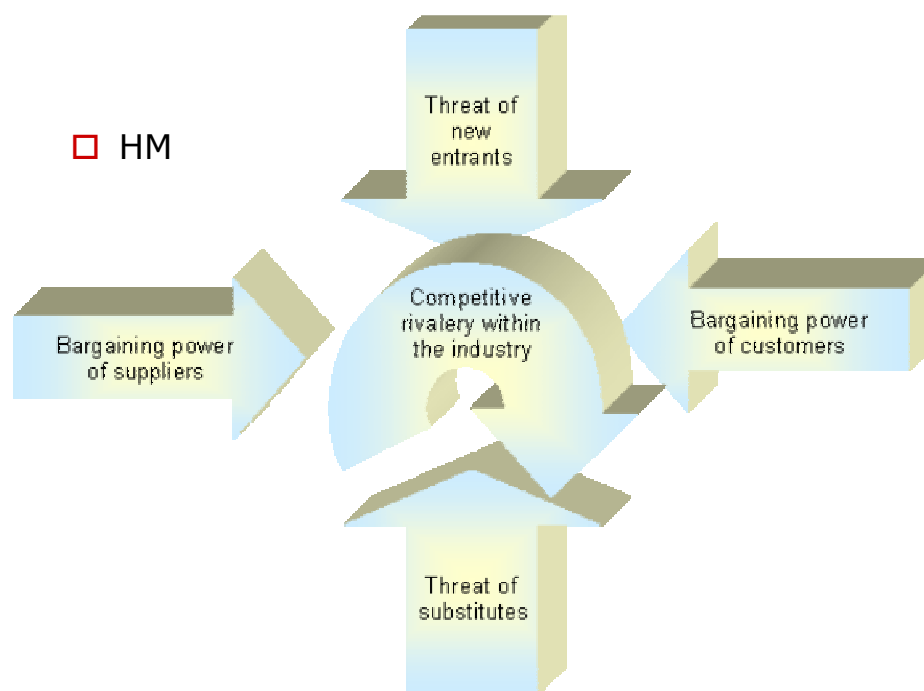
All brands were eventually failing

HM – PASSENGER CAR SALES

Year	1994	1995	1996	1997	1998
Sales	25,150	27,517	25,942	24,711	20,109

◆ Turnaround Efforts – Phase 1

HM was unable to create barrier for potential new entrants & was unable to compete with their existing strategies. Even suppliers were not looked into deep; company was in a snail pace and couldn't take up the challenge of new potential entrants in the market, including the suppliers of its different parts.





Indian economy opened up for foreign players, many multinational automobile companies entered the country. HM was the worst affected due to its inflow of competitors & was forced to react due to its poor performance of its vehicles. Company also appointed consultants McKinsey & Co. for a restructuring plan to turn around its business.

HM also decided to tap new segments to ease the competitive pressures from other giants. They collaborated with Oka Motor Co. to develop targeting at rural markets & launched Trekker (Rural Transport Vehicle) 1995 in 3 northern states. Initially it was received well in the market but vehicle soon became a criticism owing to a host of technical problems.

All restructuring and efforts could not sustain in market for a longer time, there was high decline in sales.

Company also embarked on a cost cutting exercise and announced a Voluntary Retirement Scheme (VRS) for workers in April 1998 and in November 1998. Offering a package of 0.1 Million. VRS was not received well by the strong Center of Indian Trade Union (CITU) and Indian National Trade Union Congress (INTUC)

Employee protests intensified & HM approached the state Government. Government rejected HM's proposal, following which the company decided to seek legal recourse. May 1999, instead of reconsidering the issue, the state government filed an appeal before the division bench of the Calcutta High Court.

◆ Turnaround Efforts – Phase 2

Reorganizing efforts did not pay off hence HM decided to look beyond its existing portfolio to come out of its problems. They considered McKinsey recommendations; company explored the global auto components business in 2000 and established a unit at Indore to assemble engines and gearboxes.

In order to use its design and engineering skills to enter new businesses. HM entered into an agreement with Mahindra and Mahindra (M&M) for developing petrol engine for M&M vehicles. They also tied up with GM to market the entire range of transmission equipments manufactured by Allison Automatics.

HM overhauled the distribution system in order to become more market friendly. They also decided to explore the overseas markets for its products. They also sold its earthmoving equipment to bring down its high interest debts & for the requirement of working capital and automotive business. They also continued its customer relations enhancement initiatives with the launch of the '**click and customize**' service for Lancer customers.



◆ Topic of Discussion

‘The responsibility of Hindustan Motors having failed to sustain its leadership position in the post-liberalization era was primarily the company’s own.’

Comments:

The responsibility of Hindustan Motors having failed to sustain its leadership position in the post-liberalization era was primarily the company’s own.

The factors leading to failure in sustaining the leadership position were:

- ✓ HM’s condition was a result of its lax management policies and shortsightedness.
- ✓ Use of Out-dated technologies or production facilities.
- ✓ Pressure from competition.
- ✓ More Workforces and less output.
- ✓ Internal Problems - particularly human resource troubles at the Uttarpara plant.

‘Study HM’s restructuring initiatives. Do you agree that despite all the turnaround efforts and new launches, HM have no chance in the Indian passenger car market?’

Comments:

Despite all the turnaround efforts and new launches, HM has no chance in the Indian passenger car market in order to retain its leadership position.

Reasons:

- ✓ Focus more on the luxury section rather than other passenger cars section.
- ✓ HM was banking on the Ambassador’s niche markets (government and taxi). These two sectors were also taken over by other competitors like MUL.
- ✓ No launch of new models in both Ambassador and luxury models.
- ✓ Less choice to the customers for variations which possibly might lead to the failure of customer relation enhancement initiative. i.e. **Click and Customize** service through internet.
- ✓ The earnings from the sale of its earthmoving equipment manufacturing division to a wholly-owned Indian subsidiary of Caterpillar were used mainly for re-payment of debts for its long-term borrowing.