

Ford's exit from India: Is it good or Bad?

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Introduction

Ford Motor Company was founded on June 16, 1903. It was established by Henry Ford and a group of investors in Dearborn, Michigan, United States. The company played a pivotal role in the development of the automotive industry and is one of the largest and most well-known automobile manufacturers in the world. Ford Motor Company entered the Indian market in 1995.

Ford entered the Indian market for the second time as Mahindra Ford India Limited, a 50-50 joint venture, but soon gained control of the company (72%) and changed its name to "Ford India Private Limited" in 1998. Ford established a wholly-owned subsidiary called Ford India Private Limited and began its operations in the country. Initially, Ford India started with the import and sale of the Ford Escort model in 1996. Ford India began its manufacturing operations in Chennai, Tamil Nadu, with the production of the Ford Escort in 1998. In 2000 Ford Ikon and in 2002, Ford Fiesta were introduced in India, which became a significant success for the company. Ford

India opened a new state-of-the-art manufacturing facility in Sanand, Gujarat in 2010, to support its expansion plans. Over the years, Ford has expanded its presence in India and introduced various models, including the Ford Figo hatchback, Ford EcoSport compact SUV with updated features and design, and Ford Endeavour (known as Ford Everest in other markets), a premium SUV, among others.

Ford left the Indian market for the first time in 1953. They had given this as their justification for leaving India, citing the high production costs brought on by severe import restrictions. They have once more left the fourth-largest auto market after almost fifty years. On the 20th of July 2022, the very last Ford rolled off the production line at their plant at Sholinganallur, outskirts of Chennai. In a press note, the Spokesperson of Ford India told that they shut down their production plant at Sanand Gujarat in the 4th Quarter of 2021. All these communications started one fine day when Ford India gave the news that it is restructuring its domestic operations. They

told clearly that they are discounting the production of all models at a manufacturing unit in Gujarat as well as Tamilnadu. It was stressed by them that for all practical purposes, they will be going for a clear exit from the automobile market. Ford India Private Limited began facing significant losses in the Indian market in the early 2010s. The exact timing and extent of the losses may vary, but reports indicate that Ford's financial challenges in India started becoming more apparent around 2012-2013. Factors such as intense competition, low sales volumes, and high operating costs contributed to the company's financial struggles. Despite efforts

FAILURE OF FORD

The company's first model, the Ford Escort, was a failure that served as a warning. The Escort was unpopular with Indian consumers since it had an outdated 1.3-liter petrol engine, no power steering (although the diesel version did), and no power windows for the passenger in the back. Ford had to create items specifically for the Indian market after realizing it couldn't simply parachute one of its worldwide products into the market. By applying these lessons to the design process, Ford's first vehicle built in India, The Ikon, was created and quickly became popular.

to improve performance and introduce new models, Ford India continued to face losses in subsequent years, leading to the company's decision to cease vehicle manufacturing operations in India in 2021. The company hoped to restructure its operations around electric vehicles and niche markets, like providing imported Mustangs to India.

In 1999, Ford attempted to teach Tata Motors a lesson. Recently, Tata Motors purchased Ford's Gujarat Plant. In a notorious event, founder Bill Ford once gave Ratan Tata a management lecture on his passenger car division.

This model, which was produced by Ford's Chennai facility, has a respectable amount of local content, enabling it to be reasonably priced. It was functional and generously sized. Small automobiles have dominated the Indian market for a long time. Ford and GM failed to succeed in the market by concentrating on little cars, whereas Maruti-Suzuki and Hyundai did. None of these automakers offered any compact vehicles worldwide. They did not alter their product strategy for India in accordance with regional market demands. Ford made an effort to view the Indian market via a US lens.

Ford concentrated on improving engine performance while the nation was

preoccupied with how efficiently cars were running. Ford chose a different strategy while other international automakers first created a product roadmap for India. It took a global perspective on the Indian market. Additionally, Ford launched a few models while other automakers kept releasing new ones. Ford devoted a lot of attention to Ikon. Models such the Figo, Aspire Fusion, Ecosport, Endeavour, and Freestyle were later introduced. But Ford was trailing in the race, and it was already cute Ford sold about 8000 PVs in India in the financial year 2000, and 93, 000 units in 2019. The brand's market share did not significantly increase from 1.1% in the financial year 2000 to 2.8% in 2019. The manufacturer sold about 66,000 and 48000 vehicles in fiscal years 2020 and 2021, respectively. However, it didn't do much to increase market share. Ford marketed utility vehicles in India in close to half of its vehicle sales. According to the brand, operating losses over the past ten years totaled more than \$2 billion. Besides this, a \$0.8 billion non-operating write-down of assets in 2019 too resulted in its decision to shut down the two Indian plants.

Ford's Exit and its Hit towards Workers, dealers, and Customers

Ford India stopped producing cars for domestic sales on September 9; as a result, the company's Sanand vehicle assembly plant stopped producing cars by the end of 2021 and the Chennai engine and vehicle assembly plants also stopped producing cars by the middle of 2022. Ford has experienced operating losses of \$2 billion over the past ten years and a non-operating asset write-down of \$0.8 billion in 2019. The decision, which directly impacted more than 4,200 Ford direct employees and all ancillary units, surprised both its employees and dealers. According to Vinkesh Gulati, president of the Federation of Automobile Dealers Associations in India, which represents more than four-fifths of the nation's retailers, more than \$272 million has been invested in the establishment of dealerships that employ nearly 40,000 people. This announcement made turbulence in India and many felt that the hardships will be witnessed by major stakeholders like dealers, and jobs at various distribution channel partners. Also, they were skeptical about economic security and livelihood at the macro level for its economy. But not only marketers, but customers were also very furious. Dealers were concerned as they were left to handle irate consumers who were canceling reservations, demanding refunds, and refusing to accept deliveries. Consumers look at brand,

price, mileage, and the most crucial factors, after-sales services and resale value, before making a vehicle purchase. The majority of vehicle purchases are made with finance. But it was evident that the majority of customers would not have chosen to purchase a Ford Car if they had been aware that the business was ceasing production. The tension of Ford Consumers stems from past experiences of similar exits by other automakers from India. In spite of assurance by GM, post their exit in 2017. From the Company's viewpoint, their exit can lead to a situation where the company may not have a clear legal recourse in case there are issues related to product liability or post-sales service. But in such a situation consumers are quickly and likely to take action on Dealers. This fear has created more tension for Dealers. Nearly 17 Dealers with 391 outlets are going to face a loss of up to 2000 crores of their investment. Also, around 40000 employees at these outlets are facing a threat to their livelihood, and over 10 lakh customers who own Ford are uncertain about future performance and its value. The big hit is on Dealers as they were kept in the dark and thus they happened to take bookings. Regarding OEMs, product liability, and any breaches of warranties by the manufacturers, Dealers' obligations are not explicitly stated. India "will struggle in the coming years to

make up the growth lost from the pandemic," economists said. As unemployment increased and millions of middle-class Indians plunged into poverty in 2020, real family income decreased.

Second Innings of Ford

Ford had already left once before in 1953 as a result of harsh import restrictions. In a 50/50 joint venture with Mahindra & Mahindra Limited, Ford once more returned to India in October 1995 under the name Mahindra Ford India Limited (MFIL). But, after just 25 years of operation, they decided to exit India. In those last 25 years, it was not a smooth ride except for IKON, the Endeavour, and Ecosport, other models did not do well as expected. According to Mr. Anurag Mehrotra, head of Ford India, it was unable to discover a viable path to long-term profitability. Add to that the fact that Ford canceled a joint venture it had with Mahindra and Mahindra for 2019. This was cited as evidence of a pandemic, which really made things worse for Ford. According to their joint venture plan, they wanted to create, promote, and sell Ford vehicles in India as well as select Ford and Mahindra products in fast-growing international markets. Ford's chances of surviving in the Indian market became grim without the Joint-Venture.

Toyota, a competitor of Ford from Japan, has been present in India since 1997, and Skoda, a Czech automaker, arrived there in 2001. The statistics reveal that the Indian auto market is especially tough for Multinationals like GM, Ford, and Harley-Davidson due to dominance by Japanese and Korean car makers apart from homegrown Maruti-Suzuki and Tata, and Mahindra. Additionally, parallel demand has decreased. Only 1.5% of combined annual growth in auto sales was recorded in India over the past five years, upsetting the plans of global corporations that have made significant investments in Indian markets. The government recently announced a policy for scrapping cars that require owners to have their vehicles inspected with their Registration Certificates (RC), which have an expiration date of 15 years from the date of issue.

In just three months after revealing an unexpected willingness to reconsider its India exit strategy, American auto giant Ford announced that it was abandoning the project to manufacture electrics in the nation (for exports), despite qualifying for benefits under the prestigious government's production-linked incentive scheme.

Factors that affected Ford India Private Limited's decision to cease vehicle manufacturing operations in India

The company has been reporting operating losses of more than \$2 billion, which led to the major decision to leave the market. The company is experiencing significant operating losses in addition to poor vehicle demand, which is inconsistent with its business plan. Thus, it may be said that the company is having a difficult time determining a viable future course for a long-term profitability plan as a result of declining profitability brought on by significant operating losses and weak market demand. Ford's decision to dissolve its joint venture with Mahindra & Mahindra in the 2019 fiscal year was what sealed the company's fate. The Covid epidemic, which has made things worse for Ford, was given as the justification for the same. It should be mentioned that the Joint Venture Scheme was intended to strategically enhance Ford automobile distribution and marketing in India, which was very important for business. In contrast, cooperation like this was assisting Mahindra products in taking off in high-growth international markets abroad. Ford's operations in India thus became very difficult and its chances of survival became slim without the joint venture with Mahindra.

Ford India faced significant financial challenges and sustained losses in the Indian market over an extended period. Despite

efforts to improve profitability, the company struggled to achieve sustainable growth and profitability. Ford's manufacturing facilities in India were operating at low capacity utilization due to lower-than-expected sales volume. This underutilization resulted in inefficient production costs and made it economically unviable to continue local manufacturing operations. The Indian automotive market is highly competitive and crowded, with intense competition from both domestic and international automakers. Ford faced challenges in terms of market share and struggled to establish a strong foothold in the highly competitive Indian market. Ford decided to shift its focus towards vehicle imports rather than local manufacturing. This approach allows Ford to continue offering its products in India by importing them from other manufacturing facilities around the world. It provides flexibility and cost advantages while reducing the need for maintaining local manufacturing operations. Ford made the decision as part of its global restructuring efforts to optimize its operations and allocate resources effectively. The company evaluated its global operations and made strategic decisions to prioritize investments in markets where it could achieve better returns.

Ford India: Government's PLI Scheme Not Feasible

Six months after announcing its retirement from the Indian market, Ford said it was "exploring the possibility of using a plant in India as an export base for EV manufacturing" under the government's Production Linked Incentive (PLI) programme. The PLI Scheme, which will offer incentives to the chosen manufacturers up to 18%, aims to eliminate cost barriers, foster economies of scale, and develop a reliable supply chain. It will result in 7.5 lakhs more jobs being created in India.

Ford has stated that it is still "grateful to the government" for approving its application under the production-linked incentives and for providing support while it conducted more research. The Centre selected 95 companies out of the total 115 that submitted applications under the PLI initiative. Ford Motors was another name that had been accepted for the auto PLI scheme's vehicle component. According to Ford India's Director of Communications, Kapil Sharma, the company is considering restarting production of electric vehicles. Ford is looking into the prospect of using a plant in India as an export base for EV manufacturing as it guides clients through the global electric

car revolution. Both plants would require major retooling and other adjustments to handle EV manufacturing because they had previously only produced internal combustion engine (ICE) versions. The choice would therefore depend on which of the two would lend itself to the necessary retooling.

The corporation also disclosed a large \$30 billion global investment to produce brand-new hybrid and completely electric automobiles. Of them, the India factory would almost certainly be used to produce less expensive EVs in order to take advantage of India's low cost structure. Ford might turn India into a manufacturing hub focused solely on exports, as the company statement suggests. The Government PLI scheme permits businesses to create goods locally even if they aren't sold here, provided they meet certain requirements, including year-over-year growth targets and localization targets. However, it would make sense to sell these made-in-India EVs domestically given the presence of an active dealer network, Ford's commitment to customer care, the announcement that it would keep over 90% of its service network, and the five-year price freeze on spare parts and consumables. Additionally, a significant level of localization is required under the PLI

plan, which would make these lower-segment EVs very competitive in the Indian market.

A Ford India representative later in May 2022 confirmed the decision and stated in an official response, "After a thorough evaluation, we have decided to no longer pursue EV manufacturing for export from any Indian operations. We are still appreciative of the Government's approval of our proposal under the Production-Linked Incentives program and its assistance as we carried out our exploration. The Maraimalai Nagar facility's capacity might have posed a problem for global production in the long run. Ford is making a significant investment in the EV market, and greater capacity would have been perfect to make this a reality. Ford might also have decided to abandon its EV aspirations for India given the current global geopolitical unrest, including the conflict in Ukraine and China's lockdown, which has significantly raised the price of EV inputs. Ford might have felt that it was not the right time to think about making additional investments in electric vehicles at this time. Such withdrawals generally don't bode well for India's employment or automobile industries. Such decisions in the car industry will not bode well for India's revival strategy given that the country was detestably

affected by the pandemic and is still recuperating. The effect on unemployment is more significant in these circumstances because India's economy is already grappling with record-high unemployment, which was made worse by the epidemic and the healthcare crisis.

Since consumers are responsible for paying the vehicle's road tax for 15 years, it is reasonable to expect service support and replacement parts availability for at least that long. Lack of after-sales assistance negatively impacts a consumer's experience owning a car and may promote the phony auto parts industry, which has an immediate detrimental impact on road safety. Since the value of cars at auction falls precipitously

when a manufacturer leaves, such withdrawals also have an economic ripple effect. Ford's exit could potentially result in a circumstance where a customer does not have a clear legal option in the event that there are problems with product liability or warranty. Unfortunately, in these situations, customers frequently decide to sue dealers—the last remaining public face of the company. In one instance, a United Motorcycles dealer had to deal with a customer complaint that resulted from production flaws, which should obviously fall under the manufacturer's purview. Ford's exit from the market may potentially result in a significant legal burden for the dealer and leave the customer without a surefire remedy.

Questions:

1. Assess from the consumer's perspective of post-sales service as Ford decided its exit from India.
2. Is the Ford decision to exit from India Innovation or Death?
3. What changes does the Indian Govt. need to do with respect to the accountability of Companies towards Dealers in case of exit?

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