INTERNATIONAL BUSINESS

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DEVELOPING A DISTRIBUTION NETWORK

CASE OF VOLVO CE

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ABSTRACT

India is a complex country to operate within for an international MNC and it was not until recently the government initiated reforms to deregulate in order to attract foreign direct investment. Due to the dynamic environment and lack of institutional setting it is of high importance that the relationships with the different actors function efficiently in order to cope with organisational change caused by the dynamics in the business environment.

This thesis is mainly concentrated to the backhoe loader industry, which is a separate segment within the construction equipment industry. The backhoe loader market in India is the fourth largest in the world and the attention from all the major global actors has increased in recent years, mainly due to the reforms of privatisation, liberalisation and the huge potential in the market. There are a number of specifics typical for the Indian market, such as a high price sensitivity due to the constant alternative of the low cost labour, and additionally the heavy usage of products, which are not likely to be found in other more developed markets.

In order for Volvo Construction Equipment India to build long-term relationships with customers, trust and commitment are key factors. Additionally, this thesis includes an in-depth analysis of the competition in the market. Furthermore, the thesis covers the external institutions of importance for the case company that needs to be considered when competiting on the Indian market.

The aim of this thesis is to prepare and develop Volvo CE's distribution network, for a potential launch of the backhoe loader in 2004.

Key-Words: distribution network, long-term relationship, Volvo Construction Equipment, price sensitivity, dynamic, trust and commitment

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Gothenburg, January 9 2002

Christian Henriksson

Daniel Midvik

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
BHL	Backhoe Loader
BJP	Bharatiya Janata Party
CDC	The Construction Development Bank
CE	Construction Equipment
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HCC	Hindustan Construction Company
HQ	Headquarters
ICICI	Industrial Credit Investment Corporation of India
IDBI	Industrial Development Bank of India
IMF	International Monetary Found
JCB	J.C Bamford
L&T	Larsen & Toubro
MNC	Multi National Corporation
RBI	Reserve Bank of India
TRIPs	Trade-Related Aspects of Intellectual Propriety Rights
USD	U.S. Dollar
Volvo CE	Volvo Construction Equipment India
WTO	World Trade Organisation

Chapter 1

INTRODUCTION

In this first chapter we give the background to our case. Furthermore, we present the research problem, which is divided into three research questions. Moreover, we present the purpose, delimitation, the case company and an outline of the thesis.

BACKGROUND

India is by tradition a complex country for an MNC, mainly due to the cultural differences and the former protective attitude by government towards foreign direct investment (FDI). Since 1991, industrial and investment policies have become more liberal and transparent. Despite this, FDI is still controlled by equity limits for investors in many sectors and approvals are required for many types of FDI.

In 1991, as a reaction to a severe foreign exchange crisis, the Indian government launched a series of economic reforms in order to attract FDI. These reforms have had positive effects on the Indian economy and resulted in higher growth rates, lower inflation, which in turn have resulted in an increase of foreign investment, but it is important to point out that the level of FDI remains limited compared to countries like China.

Furthermore, due to the large number of parties with different opinions in the coalition government the speed of implementation of new legislation, reductions in tariffs, liberalisation and privatisation have slowed down. The legal system is underdeveloped and even when legislation exists the enforcement of laws is modest. Despite this the deregulation process on trade and the regulatory improvements are expected to continue due to India's membership and commitments in the World Trade Organisation (WTO).

Due to the dynamic environment and lack of reliable institutional setting that characterise India, the importance of constant improvement of the relationships for an MNC with different actors, such as dealers and customers for effective adjustments to changing conditions in the business environment, cannot be stressed enough.

Most of the large global competitors in the industry are already established in the market, either as a joint venture or as an independent actor. Additionally, due to the high import duties most actors have been forced to establish local

manufacturing in order to be able to compete. Due to the reforms slow but constant change of customer demand towards more technology-advanced products these global companies have increased their focus on the Indian market.

The construction equipment market in India has historically been a protected industry and numerous actors are domestic companies that have been able to grow under these protected conditions, but have recently experienced problems to adjust to new liberalised conditions in the market.

The demand for construction equipment and services have been growing by an average of 20% the last years and the total market was approximately USD 2 billions in 2001. In order to cope with the growing demand for infrastructure (telecommunication, roads, airports, railways, bridges), and increase the technical standard, the Government of India has been inviting parties for private participation in the development of infrastructure.

The construction equipment market is categorized into three segments; heavy equipment, compact equipment and the backhoe loader (BHL). The BHL segment has grown rapidly during the years and is today the fourth largest in the world, with annual sales of about 4000 products. The market for BHL is predicted to continue to grow by 6-8% for the next two to three years. The market share for high technology and quality products is expected to increase as a part of total sales. This has attracted the attention of large global players, such as Caterpillar and Volvo CE. Caterpillar has recently established local manufacturing and plans to launch a locally produced BHL in 2003. Volvo CE investigates the possibilities of introducing the Volvo BHL in 2004, whether locally produced or not is still unclear.

The potential launch of a Volvo BHL in 2004 requires, due to the dynamic and complex Indian market, thorough investigation of the external and internal environment in order to find positive and negative factors that affect and have implications for Volvo CE's business relationships.

In the next section, we will present our research problems, formulated in accordance with Volvo CE requests. We find that there is a great need for a the type of study that we are conducting, due to that similar studies have not been conducted to any larger extent.

RESEARCH PROBLEM

We have formulated a main problem and in order to solve this problem in a structured way, we have divided the main problem into three research questions. These three research questions reflect what we think are the most important areas and aspects to investigate.

MAIN PROBLEM

How can an MNC develop its business relationship with its distribution network in the Indian market?

RESEARCH QUESTION 1

How does the macro environment influence an MNC developing its distribution network in the Indian market?

Theoretical: The macro environment is defined as the external institutional setting that influences the actions and relationships of the MNC. Prime focus is on the external institutions that are believed to have the greatest influence on the MNC in the Indian market. The complexity and dynamics in the Indian market, indicates the relevance of this question.

Practical: In our study we will use this question to analyse the external institutions, which have a direct impact on Volvo CE's ability to develop their distribution network to prepare for the potential launch of a BHL.

RESEARCH QUESTION 2

How does the micro environment influence an MNC developing its distribution network in the Indian market?

Theoretical: This question demands analysis of the industry and the competitors of the MNC in order to find the industry key success factors. Additionally, an analysis of the internal setting of the MNC will be conducted.

Practical: We will make an extensive analysis of the construction equipment industry and the competitors of Volvo CE in order to find the key success factors for the BHL industry. Furthermore, an internal analysis of Volvo CE's resources and capabilities will be conducted.

RESEARCH QUESTION 3

How does a triad business relationship between a company, dealership and customer, work in the Indian market and how does these linkages affect the relationship?

Theoretical: An extensive analysis of the linkages that affect the relationship between the different actors connected to the MNC is conducted and eventually benchmarked towards the competitors linkages that affect the relationships in order to find key factors for developing a relationship.

Practical: Volvo CE's relationship to their dealerships and customers will be analysed and compared to the relationships of the dominant actor in the BHL market, the British company JCB in order to find new ideas and solutions to improve Volvo CE's relationship to their distribution network.

PURPOSE

The purpose of this thesis is to prepare and develop Volvo CE's distribution network, for a potential launch of the BHL in 2004, as a part of Volvo CE's penetration of the Indian market.

DELIMITATIONS

- ✓ This thesis will only analyse the Indian BHL market and will not include an analysis of any other product segment.

- ✓ The thesis is limited to Volvo CE India and will not consider any additional parts of the Volvo Corporation; neither will it include the global Volvo CE.

- ✓ Some information that would clarify certain issues in the analysis of this report is not included since it is considered classified material.

- ✓ Dealerships will not be dealt with separately in the competitor analysis, but as a part of the organisation of the brand company.

THE CASE COMPANY

Volvo Construction Equipment is a part of Volvo Group, which is a global company with 55,000 employees and approximately $14.2 billion (2000) in sales. The Volvo Group of companies includes Volvo Trucks, Volvo Bus, Volvo Penta, Volvo Aero and Volvo Construction Equipment. Volvo Construction Equipment is an international company manufacturing for the construction and related industries and it was founded in 1832 in Eskilstuna, Sweden. Volvo Construction Equipment has been a part of the Volvo Group since 1985 and became a fully owned subsidiary in 1995.

The company operates with a decentralized organization; with manufacturing plants on four continents. Distribution of Volvo CE's products is through independent dealer networks throughout the world, which also represent Volvo CE for service and support of their products.

Additionally, Volvo Construction Equipment India (Volvo CE) entered the Indian market in late 1998. In 2001, the organisation had a turnover of USD 16 million. The organisation has been growing with 25-30% over the last three years and is predicted to sell 130 products this year. In 2002, Volvo CE had 13 employees, conducting sales and marketing, customer support service and spare part business. These employees are located in six regional offices each located close to the six dealerships, situated in Bangalore, New Delhi, Bombay, Calcutta, Hyderabad and Chennai. The main office of Volvo CE is located in Bangalore.

Volvo CE has a comprehensive range of products such as wheel loaders, hydraulic excavators, motor graders, articulated haulers, the BHL and compact equipment.

Compact Equipment, includes Volvo compact wheel loaders and Volvo compact excavators, which are used in lighter construction work.

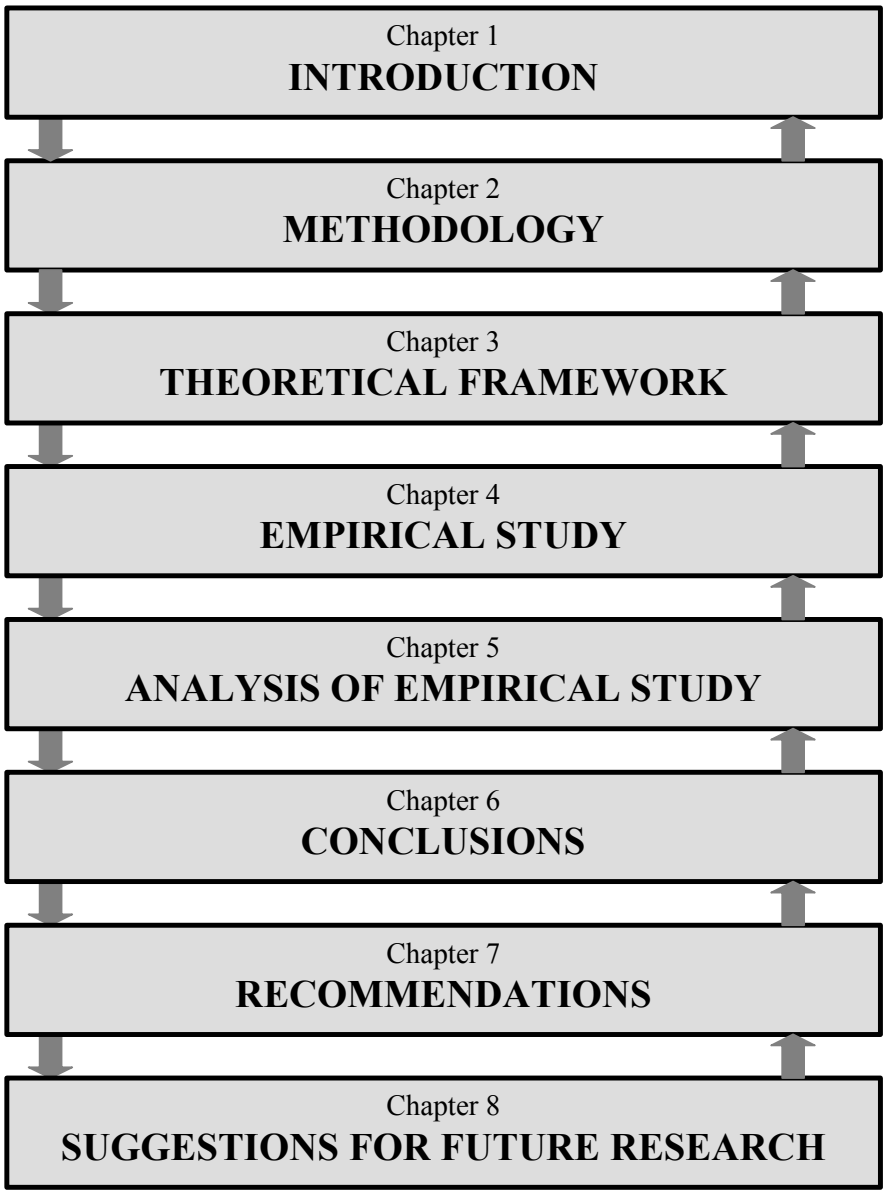
General Purpose and Production Equipment, includes Volvo wheel loaders, Volvo excavators, Volvo articulated haulers and Champion motor graders.

BHL, Volvo CE began designing these new products 3 ½ years ago and they are manufactured in Poland. The demand in the world market is estimated to be around 50,000-70,000 units per year. The BHL includes two products, one for the North American market and one for Europe. The market for this product segment in India is dominated by JCB, which have about 85 % of the market

OUTLINE OF THE THESIS

Figure 1 below, characterises the structure of our thesis and how the thesis evolved from the research problems through chapter 2-5 in order for us to draw the conclusions and give our recommendations.

Figure 1 - Outline of the Thesis



Chapter 2

METHODOLOGY

The purpose of the methodology chapter is to present the methods and procedures that we have used in this research. Each section of this chapter will explain the concepts discussed, and how we have implemented the theory in our thesis. The starting point of the methodology chapter will be the research strategy, designing of the case study and the scientific approach. After that, we will describe our data collection, both the primary and secondary data. Finally, in the section of quality of the research, we will discuss the validity, and reliability.

RESEARCH STRATEGY

The first step to take when conducting research of this size is to evaluate the research strategies. According to Yin, there are five types of research strategies when conducting social science research: experiments, surveys, archival analysis, history, and case study. Depending on the type of research there are advantages and disadvantages to all the research strategies.

The most important criteria for deciding what strategy to use is to look at the research question. Case studies are in general used when the questions of "how" and "why" needs to be answered. Even though the experiment and history strategies also answer these questions, there are benefits with using a case study research strategy. Firstly, a case study does not oblige control over the behavioural events that are required in experiment strategy. Secondly, the case study focuses on contemporary events, which the history strategy does not require. (Yin, 1994) One of the strengths of the case study is its unique ability to use many different pieces of empirical evidence. In addition, case studies are suitable for practical problems and it is often said to be problem-centred, small scaled and entrepreneurial. (Yin, 1994)

One should be aware that the case study is sometimes criticised from the following aspects: Firstly, researchers easily manipulate the case study in order to meet the purposes of the case study. Some critics imply that the researchers have a biased view that can influence the findings and conclusions. Secondly, scholars are complaining that case studies do not provide a good basis for generalisations. However, if the researchers goal is to generalise theories, not the findings themselves, then generalisation is possible. Finally, the most common complaint for the case studies is that they take too much time to produce, but there are new ways for producing shorter and more easily read reports. (Yin, 1994)

When conducting case study research, problems can occur when the author is uncertain as to which type of information to collect and how to use this information when it is later analysed or presented. Merriam stresses the fact of

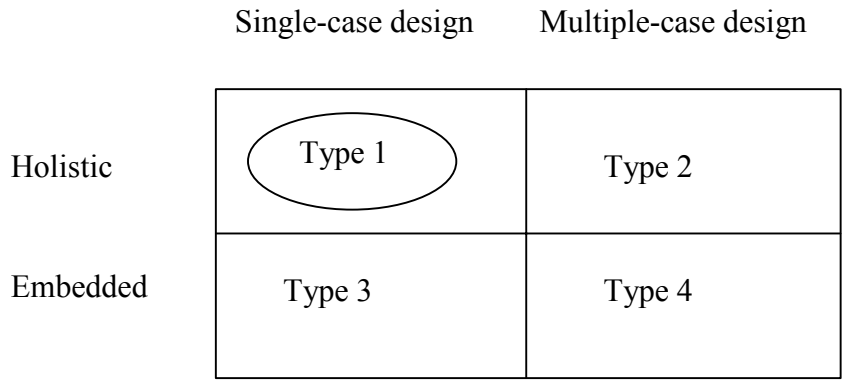
providing clear boundaries that limit the extent of the research case. These limitations are set to design the research to become qualitative and not quantitative. However, this does not rule out errors in the research, which is discussed later in the methodology chapter. (Merriam, 1998)

The study, which we undertook at Volvo CE, was a case study, since we helped them to gain a better understanding of how to build up a distribution network for the Indian market. We also hope to explain "why" the market is operating in a certain way and "how" Volvo CE can adapt its organisation to function better to meet competitors and customer demands.

THE DESIGNING OF A CASE STUDY

According to Yin, when designing a case study, there are four different types of case studies, see figure below. Yin makes a distinction between these four designs; single case holistic design, single case embedded design, multiple case holistic design, and finally multiple case embedded design.

Figure 2 - Designing a Case Study (Yin, 1994)



According to how the research questions are posed, a distinction can be made between the single- and multiple case designs. The single case design is most favourable when testing a well-formulated theory, when the case is unique or extreme, or when the researcher has the opportunity to do direct observations and analyse these occurrences, previously inaccessible to scientific investigations. Nonetheless, there are risks involved in the single case designs, these require

careful investigation of the case in order to minimise misrepresentation. If the study includes several cases, the multiple case design is the preferred choice. Advantages of using the multiple case design is that the evidence from many cases can be more persuasive and robust. Disadvantages with this sort of investigation are that they are very resource and time-consuming. (Yin, 1994)

The distinction between the holistic and the embedded case studies depends on whether the case focuses on an overall global occurrence or on several sub-units. The holistic design is advantageous when no clear sub-unit can be identified, and when the relevant theories underlying the case are by themselves of a holistic nature. If sub-units of an analysis can be identified, so that a more complex or embedded design can be developed, this often provides considerable opportunities for undertaking an extensive analysis, enhancing the insight stemmed from the single case. (Yin, 1994)

Our thesis focuses on using a single holistic case design (type 1). The theories described in the theoretical framework chapter have been applied in this case. The theories have earlier been used in previous studies. Since the network approach is of a holistic nature, the choice is to implement this for one case, Volvo CE India, to provide for an in-depth analysis of the case.

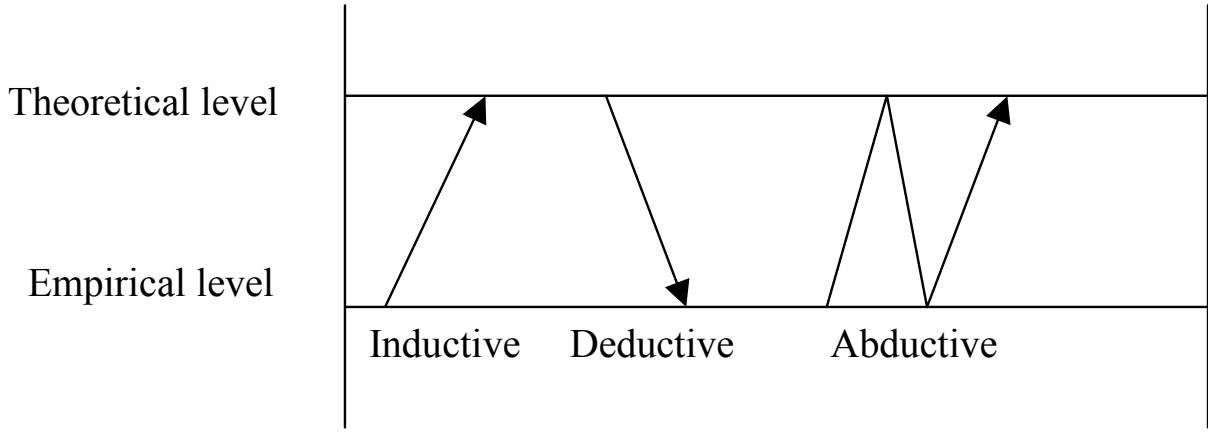
SCIENTIFIC APPROACH

There are three types of scientific approaches used in a research study. These are the exploratory, descriptive and the explanatory approach. The exploratory approach is used when nothing or little is known of the phenomenon studied, or within a certain area of interest. Problems are identified and structured and the goal is to develop hypotheses and propositions for future investigations. The descriptive approach aims to describe an event, that previously been explored. This is a continuation study of the development of the specific phenomenon under research. Problems are analysed and conclusions are drawn, but these are not steered by generalisations or formulations of a universal hypothesis. The objective of an explanatory approach, also known as the causal approach, is to demonstrate what cause produces a certain effect, and propositions about the outcome are tried. (Yin, 1994)

In the beginning of the research, the exploratory approach helps the researcher to identify, define and structure the problem. We used this to find specific information to our problem and identifying the theories needed to conduct the research. This also helped us to gain a general understanding of the Indian market. The descriptive approach was used when describing and observing events. We used this to gather knowledge about Volvo CE, the market, competitors and customers. When we had gathered enough knowledge and theories, the aim of the study was to explain the cause-end effect relationship between different factors and the explanatory method was used.

While doing research, the researcher can use an inductive, deductive or abductive reasoning procedure. In an inductive approach, the researcher collects empirical data and tries to form the theory after the collection of data has been made. There are no theories upon which the researcher relies, but he is trying to create a theory that could explain the information collected. The deductive approach is the one that experiments with an already known theory, to test if it works on the specific case. The abductive approach is a combination between the inductive and deductive. (see Figure 3)

Figure 3 - Scientific Approach to a Case Study



In our research, we choose the abductive approach, because it fits with all factors influencing the research. We also needed to make modifications to known

theories, and moved our studies between the theoretical- and empirical level shown in Figure 3.

The starting point of our studies was on the empirical level. After discussing with Volvo Construction Equipment management group what were their requirements for the thesis, we returned to Gothenburg University to find theories covering the problems stated by Volvo Construction Equipment. When conducting that research we were doing deductive reasoning, finding theories applicable to the research, developing the research problems. We presented the preliminary findings and the research problems for Professor Jansson, on the 19th of September and Professor Jansson approved our research proposal. We then started on the empirical level; we did an interview questionnaire, which we used in India between the 9th and the 30th of October 2002. Back in Sweden, we published our findings for Professor Jansson, and he believed that we should add another theoretical model, the Network Strategy Model. While doing so, we were on the theoretical level. After adding the model, we were on the empirical level, while doing the Analysis, Conclusions, and Recommendations Chapters. During the period of writing this thesis, the constant fluctuation between inductive and deductive reasoning has lead to modifications and alternations, throughout our research, both empirically and theoretically.

RESEARCH METHOD

When carrying out research and using a case study, the study can be qualitative or quantitative. The research methods are different largely to the extent of validity and reliability of the research report.

According to Merriam using a qualitative research method affect the way of gathering and analysing the data, one also needs to consider the questions of validity and reliability. Qualitative research is usually made in an inductive way. The main objective is not to test known theories, but developing new theories, concepts and hypotheses. Direct observations and field-studies are conducted to allow the researcher to create theories based on the data collected in the field. Therefore, it is not about finding data that can match the existing theories, but to explain a phenomenon by introducing elements of a new theory. When a

researcher introduces a new theory, it is preferred if he uses words and pictures instead of numbers when describing the new phenomenon.

This report is qualitative since it is primarily based on data collected from direct observations and interviews made on the field-studies, conducted by us in India. The collection of data in India was done over a three-week period. We conducted interviews in the six large cities Bangalore, New Delhi, Bombay, Calcutta, Hyderabad and Chennai. This collection of data is the basis of our case study. However, the attempt to work in an inductive sense, building new theories, has not been the objective of this thesis. The study has been more of an abductive character, using parts of existing theories in new areas of research. Furthermore, modification and alternations to the existing theories have been made, but not with the objective to create new theoretical frameworks.

DATA COLLECTION

When collecting data for a case study research, this involves different tactics as direct observations, interviewing and analysing documents. According to Merriam, using multiple sources of information is useful if the researcher doubts that a single source of information will provide a complete and comprehensive understanding of the research problem and in our research we have used multiple sources of information. We have used two types of information in our thesis, primary data and secondary data. When we wrote the thesis, we used several different sources of data to increase the validity and reliability of the data. Primary data is information, which we collected specifically for this research, such as interviews and direct observations. While on the other hand secondary data has been collected by other individuals with another purpose of their data collection, such as newspapers, literature and Internet sources.

PRIMARY DATA

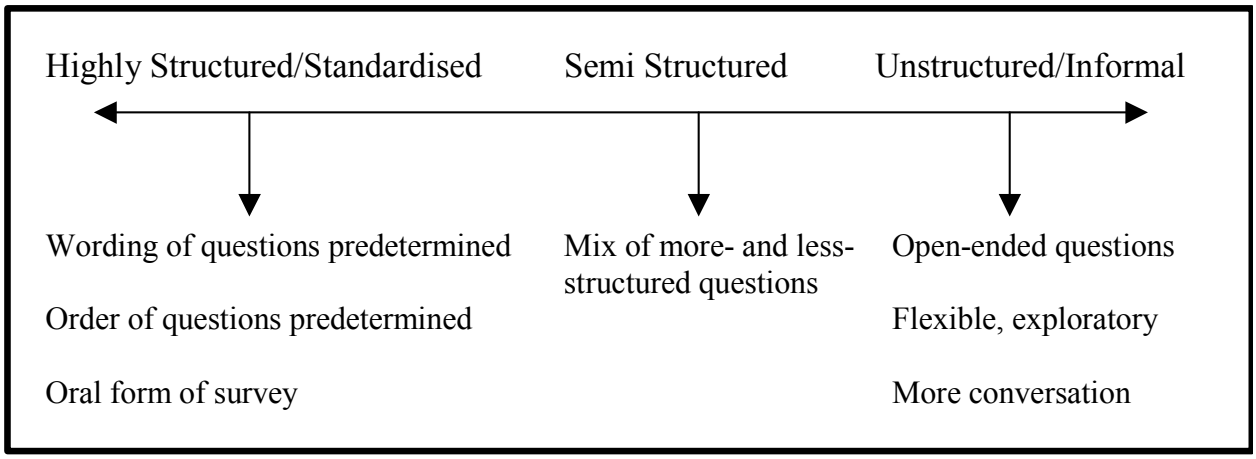
In order to solve our specific problems, new data was a necessity to collect, to answer our particular questions. This new data we generated through direct observation and interviews during the fieldwork. The main data collection method of this thesis has been qualitative interviews conducted in Bangalore, New Delhi, Bombay, Calcutta, Hyderabad, and Chennai. Many of the cultural aspects in this

thesis have been collected through direct observation, during our three-week field-study in India.

INTERVIEWS

The most common form of primary research is based on interviews, especially when the researcher is searching for in-depth information about a special phenomenon. Merriam has identified three types of interview styles that have different characteristics and structures. The interview structure ranges from highly structured, questionnaire driven interviews, to unstructured, informal interviews (see Figure 4). From these styles, the interviewer can chose which style to use to get a desired answer from the interviewee.

Figure 4 - Interview Structure Continuum (Merriam, 1998)



The highly structured interviews are more or less an oral survey. The wording and order of the interview questions are predetermined. This can be used to gather social-demographic data from the respondents. It can also be used if the researcher wants the interviewee to answer a statement or define a concept. The problem with the highly structured interview is that it does not allow the interviewee to speak freely about the subject. This can lead to misunderstandings, because an interviewee can wrongfully answer questions due to interpretations mistakes.

The semi-structured interviews are conducted with some flexibility towards the interviewee. However, the interviewer has a framework of questions that he wants answered, but the flexibility will also allow the researcher the opportunity to elaborate on certain topics, as the interview proceeds. The unstructured interview style is essentially exploratory and is used when the researcher wants to learn about a topic. The questions are open-ended giving the researcher and interviewee much navigation space and will be more or less like a conversation, which will be exploratory for the researcher giving the researcher an opportunity to gain insights on a specific phenomenon. (Merriam, 1998)

In this thesis, we undertook 38 interviews primarily using, semi-structured interviews. In Table 1, all the interviews we conducted are presented with name of the person, the company they work, the city were the interview were conducted, and the time of the interview.

Table 1 - Interviews Conducted

Name	Company	City	Time (hours)
Deep Johari	Swedish Embassy	New Delhi	1
Maneesh Parami	Swedish Trade Commission	New Delhi	1
P.R Swarup	Construction Industry Development Council	New Delhi	1
Munish Sood	Volvo CE	New Delhi	2
B. Sridhar	Volvo CE	New Delhi	1
Monoj Kotru	Alpha Technical Services	New Delhi	1,5
P.k Shivpuri	Alpha Technical Services	New Delhi	1
M.R Dhiman	Alpha Technical Services	New Delhi	1
Gurmeet Singh	Leo Earthmovers	New Delhi	1,5
Sandeep Agrawal	Oriental Structural Engineers	New Delhi	1
Ram Ratten Vikal	Ram Engineering	New Delhi	1
Abhijit Padhye	Volvo CE	Bombay	2
Mangesh Vaidya	Svenska Technologies	Bombay	1,5
Prasanna Pahade	TATA Strategic Management Group	Bombay	1
Ashok Khare	Hindustan Construction Company	Bombay	1
G.J Dandiwala	Hindustan Construction	Bombay	1,5

	Company		
Anand Kumar Himatsinka	Anand Financing Corporation Royal Securities	Calcutta	1
Prashant Shrivastava	Volvo CE	Calcutta	2
Saibal Bagchi	UD Marketing	Calcutta	1,5
M. Suresh Reddy	Sree Krishna Motors	Hyderabad	1
A. Krishna Kumar	Telco	Hyderabad	1,5
H. Pramod	Vijay Engineering Equipment	Hyderabad	1
C. Vijayashekar Reddy	Vijay Engineering Equipment	Hyderabad	1,5
C. Karthikeyan	Volvo CE	Hyderabad	2
Anam Ramana Reddy	C.L Engineering Equipment	Hyderabad	1
N. Anand	Citibank	Hyderabad	0,5
Mohan T.	Anukamp JCB Marketing	Hyderabad	2
V. Chandrashekar	GMMCO	Hyderabad	2
BA. Sehar	Matmove Movers	Chennai	2
Vijaay Sheth	Urmilla Enterprises	Chennai	1,5
A.M Muralidharan	Volvo CE	Bangalore	3
N. Raghavendra	Volvo CE	Bangalore	3
S. Manjuath	Volvo Trucks	Bangalore	1
H.V Nayak	Wilworth Earth Movers	Bangalore	1
M.P Vikram Setty	Wilworth Earth Movers	Bangalore	1
S. Raghunathan	Larsen & Toubro	Bangalore	1,5
G.I Prasad	JCB	Bangalore	1,5
N.K Sanghi	Caterpillar India	Bangalore	1,5

The interviews, presented in the table above, were conducted in various places and shifting conditions. An example of these different conditions are the interviews we conducted with customers. One of the customers had his office in a shack in the middle of a field. Another customer we met had a high-rise building as an office, with the latest in interior design. Furthermore, a dealerships that we met, had moved his office to a "new building," the only problem was that the building was not finished, and we had to climb a ladder, in dress shoes, shirt and tie, to reach his office.

There are of course numerous other observations that we made in this country; one in particular comes in mind when discussing the vast population of India, and their

love of cricket. From our hotel in New Delhi, we had a view over a cricket field. On that field, two people were cutting the lawn, with a pair of scissors. This is an example of the large differences that exist in the Indian market and is viewed upon as something normal by Indians, while foreigners might find it strange and peculiar.

When conducting interviews we used the semi-structured style. It gave us the opportunity to find out more about specific areas as a function of the special knowledge of the person interviewed. It also allowed us to discuss the subject, thus clarifying matters as the interview went along.

SECONDARY DATA

Secondary data is data already collected for the same purpose or for another reason. This data might be of high value when trying to solve a specific research problem. Secondary data is identified and collected in books, articles, journals, and from databases. There are two types of secondary sources internal and external. The internal secondary sources are published within the company or organisation, such as annual reports, information booklets, and company brochures. The external secondary sources are collected as mentioned above from books, articles, journals, and the Internet. The secondary sources used in this thesis will primarily be subject to triangulation to increase the validity of this thesis. (Kinnear & Taylor, 1996)

The internal secondary sources used in this thesis was collected from Volvo CE India; consisting of company presentations, and brochures. The external secondary sources used in this thesis were collected from books, articles, journals, and database sources. We have tried to use secondary sources that have been used for the same purpose of research as our own, and focused on finding sources that are objective.

QUALITY OF RESEARCH

When discussing the aspect of quality in a research study, one would look at the concept of validity and reliability. According to Merriam, validity and reliability is concerned with substance in the research, whether or not the researcher has

measured what was relevant to measure, to what extent the obtained information is credible or not, and if there is a clear relationship between the theory used and the data collected. Furthermore, it is important that the reader can follow the work of the paper to see if the conclusions drawn from the analysis are logical or not. We used two types of validity in our thesis: internal validity, and external validity. In addition, to validity there is the issue of reliability.

VALIDITY

The issue of internal validity is concerned with whether or not findings for the research can be shown valid for the problem that is being investigated. According to Merriam, internal validity in a research paper is concerned with how relevant the theoretical framework is to the research. It is also a determination of whether the researcher has studied what was supposed to be investigated.

According to Yin, there are four types of triangulation to increase the validity of a research paper. These four different types of triangulation are: data triangulation, investigator triangulation, theory triangulation, and methodology triangulation.

We used the concept of data triangulation and theory triangulation to increase the internal validity of the thesis. In this research 38 interviews have been conducted with organisations related to the case company, such as competitors and customers, but also with organisations that influence the company in other ways, such as government, professional association and financial institutions. Furthermore, we have been using multiple sources of information, confirming the data from both secondary and primary data. Additionally, we have been discussing problems of both theoretical as well as empirical nature, with professors and representatives from the case company. We have also discussed with our fellow colleagues at the School of Economics and Commercial Law at Gothenburg University. Therefore, we believe that our thesis has a high degree of internal validity.

According to Merriam, external validity is concerned with to what extent the findings from the research are applicable to other situations, beyond the specific case study. The requirement for this is that the work has a high degree of internal

validity otherwise there is no point in generalising the findings. If external validity is obtained the result of the research can be transferred and applied to other studies within the area. (Merriam, 1998)

The findings in our thesis can be applied to other MNC's establishing operations in India. The theoretical framework that has been used gives the reader a clear picture of how to establish themselves in India and what key functions that they will need to consider when doing so. This thesis also discusses the issue of building business relationships in India. This information can be used for an MNC establishing operations in India. However, the fact that this research only covered one case company may to some extent limit the use of the conclusions for other MNC's facing the same situations in the Indian market.

RELIABILITY

Reliability is concerned with the extent to which the findings and conclusions can be replicated. This means that if the study with the same data, following the same procedure, will meet the same result of the research questions. According to Merriam, in order to increase the reliability of the research, documentation of information is imperative. Since a qualitative case study has tendencies of becoming subjective, it is of special importance to have information from a number of sources. The goal of reliability is to minimise the errors and biases in the research. (Merriam, 1998)

In order to decrease the biases and errors of our research we conducted data triangulation. Interviewing and discussing the same topic with people from the same organisation was done to decrease the subjectivity of the information. Furthermore, we verified the information to ask questions leading to the same answers, with interviewees from other organisations within the same industry.

In addition, we took a number of precautions in order to increase the reliability of the research. An example, is that all interviews that we conducted were recorded and transferred into the thesis, first after carefully listening to the recordings a number of times. Furthermore, during the interviews, both researchers were present and actively taking notes of the interview, to increase the accuracy of the

information. When the information was conflicting between our notes and the recordings, we crosschecked the information with the interviewed person.

The presentations given to us by Volvo CE representatives, we questioned and verified when uncertainties arisen. We also took part of confidential information, however this information is not included in the thesis for obvious reasons. Even though we excluded this information, we believe that our thesis has a high degree of reliability.

Chapter 3

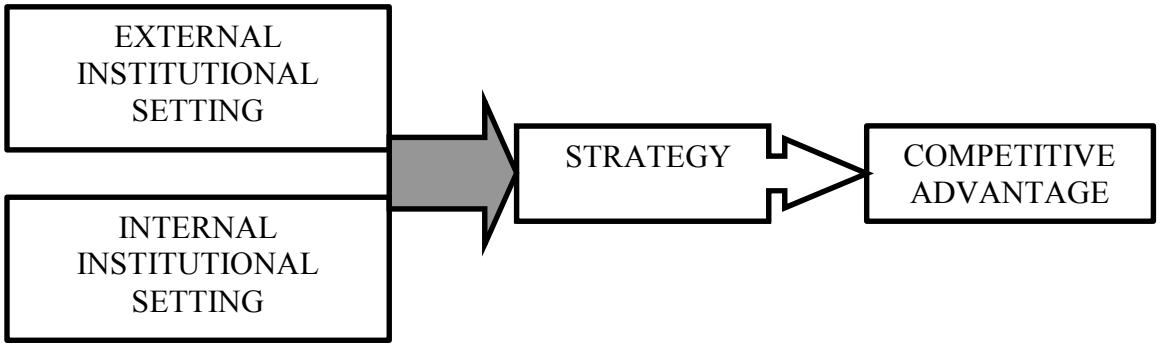
THEORETICAL FRAMEWORK

In this chapter we present the theoretical concepts that we use in our research. The theories that we used have structured our thinking process and have been of great use when the results was analysed. The International Strategy Model, created by Professor Hans Jansson, is used as the overall framework for our thesis and is presented in this chapter.

INSTITUTIONAL STRATEGY MODEL

The Institutional Strategy Model is a comprehensive model to establish a firm's competitive advantage in a market. This model consists of the External Institutional Setting and the Internal Institutional Setting, which combined will affect the strategies of the firm that might lead to competitive advantages. Furthermore, there are three types of strategies defined by Professor Jansson, as the International Resources-Based Strategy, Matching Strategy and the Network Strategy. This will be further explained later in the Theoretical Framework Chapter.

Figure 5 - Institutional Strategy Model (Jansson, 2002)



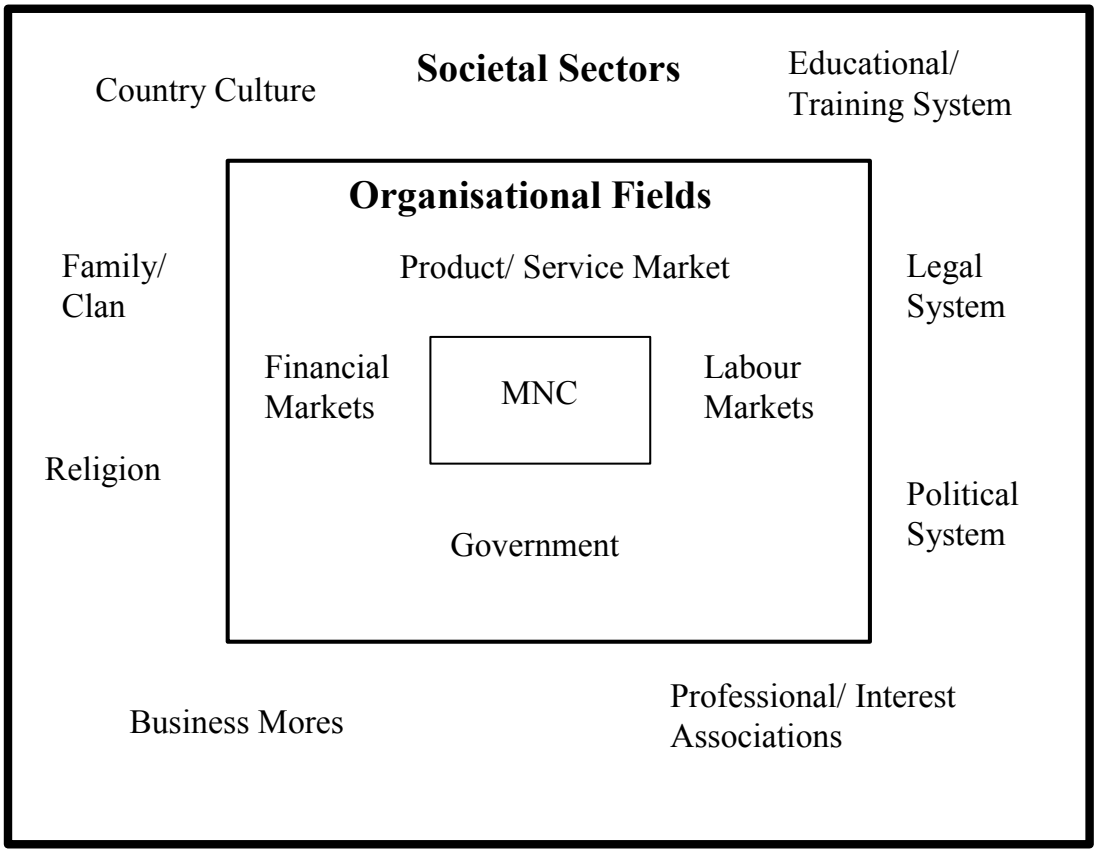
EXTERNAL INSTITUTIONAL SETTING

Professor Jansson has created a model for analysing the external institutional setting, called the Basic Institutional Model. This framework is used by MNC's to analyse the external environment (mainly valid for the emerging markets) and relates to the strategic options and international strategies of the MNC.

Professor Jansson's framework gives a deep explanation of the environment surrounding and affecting the MNC entering emerging market. According to Professor Jansson, each society is founded on a number of institutions that forms a context in which the activities in a society occurs. The MNC's strategic as well as operational decisions are according to Jansson highly influenced by the

institutional setting in the market they are in. In order to understand how the institutional setting looks like and influences the actions and behaviours of an MNC a thorough analysis of the institutional framework in the particular market has to be made.

Figure 6 - The Basic Institutional Model (Jansson, 2002)



Professor Jansson's Basic Institutions model is a tool that explains how the different institutions influence each other, as well as the company, either directly or indirectly. The model consists of three rectangles: The Societal Sectors, The Organisational Field and The MNC itself. The MNC itself will not be directly influenced by the societal sector, since these sectors mainly influence the institutions in the organisational field. The organisational field on the other hand has a direct impact and the MNC interacts directly with the institutions within this rectangle. Institutions in the organisational field have a direct influence on the

MNC and vice versa. The Societal sectors have an indirect, one-way influence on the MNC. The societal sectors will only partly be analysed in this thesis, but some additional information about the societal setting will be enclosed in the appendix. The interactions, direct or indirect, between the different institutions in the institutional setting creates a network of linkages between various institutions, within which the MNC has to operate in order to be successful. The MNC has to adjust its strategies so that it fits the institutional framework existing in the market.

Jansson gives a thorough explanation of what an Institution is and what it constitutes. Institutions work as a frame for behaviour for individuals, of what is accepted and not accepted behaviour: It is important to distinguish between group and individual behaviour as well as organisational and individual behaviour since institutions are concerned with groups. Institutions are collected rule systems or routines that determines the behaviour and action of organisations as well as individuals. When using an institutional approach, factors such as the transfer rules, ways of thinking, norms and behaviour, can be explained in a comprehensive way and ease for the MNC to adapt to the institutional setting in a country. The concepts characterising institutions describe the specific way in which people behave and relates to each other in a society.

Rules can be formal or informal; the formal rules can be laws and regulations, constitutions and property rights. The informal rules are more difficult to identify and are often hidden within people's behaviour, but are still of high importance. Such rules can be traditions, values or certain codes of conduct.

The institutional characters have developed through history and have developed to become behavioural regularities. These characters and ways of behaving exist sometimes unconsciously among people, reaching specific ways without even reflecting on why they do so. For a foreign enterprise facing a new country,the institutional setting will be of crucial importance to try to understand both the informal and, particularly difficult, the informal rule systems dominating the new business environment.

SOCIETAL SECTORS

The institutions in the societal sector are not directly influencing the MNC but when the institutions in the outer rectangle develop and change, they influence the organisational fields and therefore they have a indirect impact on the MNC. Only the legal institution will be analysed in the societal fields since this is the only institution having indirect implications on Volvo CE's operations. Additional general information from some of the other institutions for the reader interested will be found in the appendix. These institutions will not be analysed.

ORGANISATIONAL FIELDS

The societal sector can be explained as the foundation that influences the institutions in the organisational field that in turn is affecting the MNC, in the centre of the model. Within the organisational field are those institutions that have direct influence on the MNC. Only three of the four institutions will be analysed since these institutions are the major influencers of the MNC. The institutions that will be analysed are Government, Financial market and the Product and Service market since these institutions have direct implications for Volvo CE. Furthermore, the Product and Service market will be thoroughly analysed by using a variety of models described in the section below.

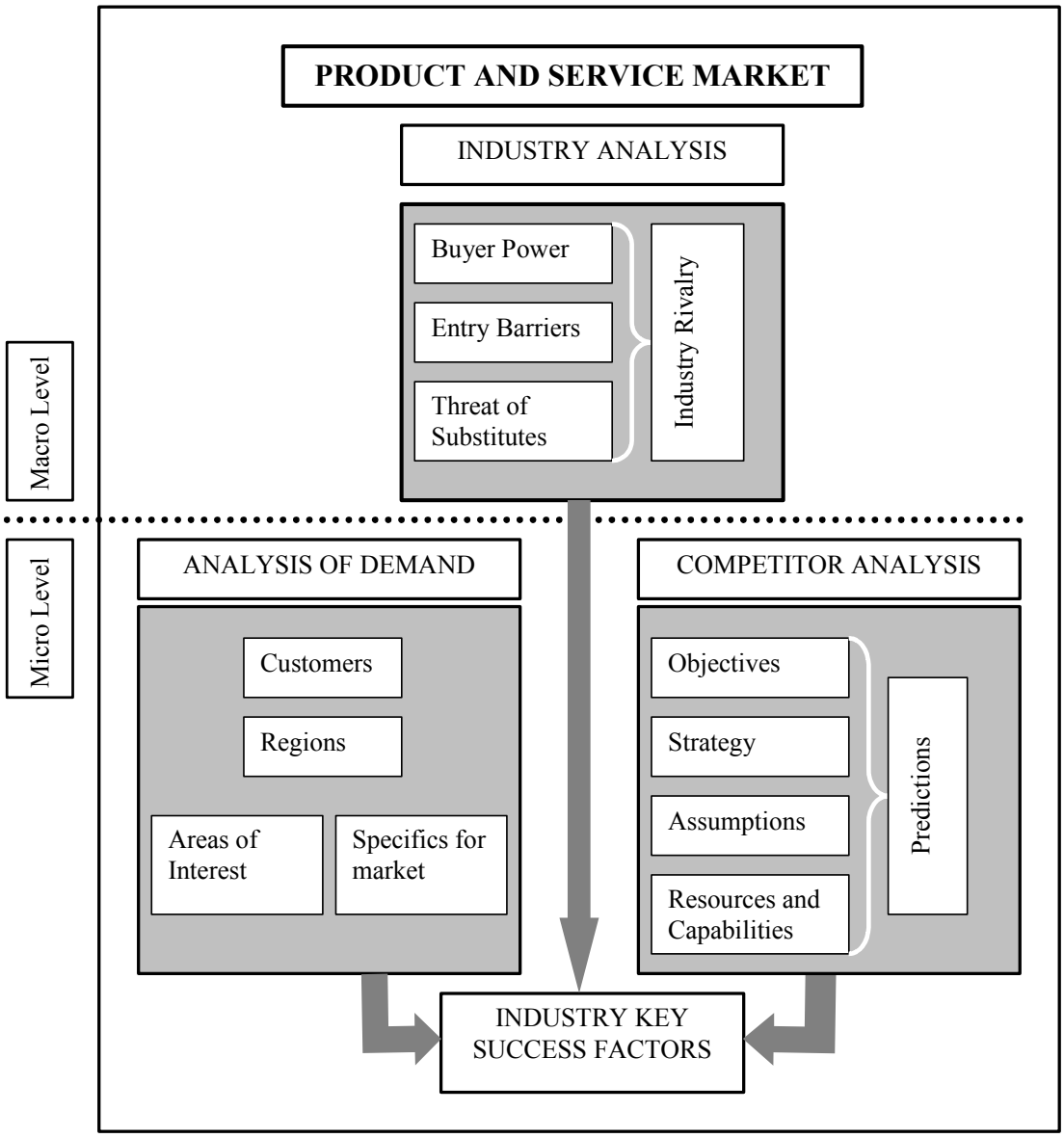
PRODUCT AND SERVICE MARKET

In order to analyse the product and service market in Jansson's model, we have created our own framework. The framework combines and modifies models from two known author's frameworks. Firstly, Mr R. Grants model "Identifying Key Success Factors" has been supplemented by an industry analysis, which is analysed by using Mr Porter's Five Forces Model. In the five forces model the threat of suppliers in this model has been excluded since it was not of vital interest for the purpose of our thesis, since the question of local manufacturing at this point has not yet been decided by Volvo Construction Equipment. By adding the Industry analysis and using the five forces model we have the opportunity to start the analysis of the CE industry at a macro-level and than by adding other models, narrow it down to the micro-level and find the key success factors for BHL segment. In our framework we use Mr Grant's Competitor Analysis in order to

analyse competition in a structured and comprehensive way to get the best possible understanding of the current situation facing an MNC. The other part of our framework is the analysis of demand, part of Mr Grants original "Identify Key Success Factors" model. The analysis of demand has been supplemented by some additional more specific factors in order to make this part of the model more explicit and to provide specific information related to the BHL segment. In Mr Grant is original model the analysis of demand is summarized into two questions; Who is the customer? What do the customers want? We have added factors: the regions of importance, areas of interest and the specifics for the market in order to get a deeper and more specific understanding of the demand on a micro-level, more specifically the BHL segment. We believe that by creating our own framework we will provide a more accurate and comprehensive analysis of conditions and demands in the part of the construction equipment industry in India, relevant for our thesis.

A more detailed explanation of the different models used in our model and how we have changed or modified them will be found on the next page.

Figure 7 - Model for Analysing Key Success Factors (Authors)



We will present our framework in the following text by explaining all four parts of the model, starting with Industry analysis.

INDUSTRY ANALYSIS

The competitive forces model, developed by Michael Porter and first printed in the Harvard Business Review in 1979, attemp to give an understanding of what makes businesses profitable. The model is referred to as Porter's Five Forces since

it states that there are five competitive forces being assessed. We have modified the Five Forces model to only include four forces, since the bargaining power of suppliers, does not relate to our case. Porter argues that the major determinant of profitability for any firm is dependent on the type of industry it operates. The competitive forces model provides a tool for analysing what the general conditions in the industry are and how profitable the industry is. We chose to include this model in the identification of key success factors model to provide a more comprehensive analysis starting at macro-level by using this model.

BUYER POWER

The power of buyers is the impact that customers have in the industry. In general, when buyer power is strong, the relationship to industry is near to a market in which there are many suppliers and one buyer.

Table 2 - Characteristics of Buyers

Buyers are weak if:	• Producers threaten forward integration • Significant buyer switching costs • Buyers are fragmented • Producers supply large shares of buyers' input
Buyers are strong if:	• Buyers are concentrated • Buyers purchase a large portion of output • Buyers possess a credible backward integration threat

ENTRY BARRIERS

Existing competitors are not the only threat to a firm in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, many industries posses characteristics that protect the high profit levels of firms in the market and this makes it difficult for other actors to enter the market.

Barriers to entry arise from several sources:

Patents and proprietary knowledge serve to restrict entry into an industry. Ideas and knowledge that provide competitive advantages are treated as private property when patented. Government create barriers despite that its principal role in a market is to preserve competition through anti-trust actions; governments also restrict competition through the granting of monopolies and through regulation. Certain industries such as utilities are considered natural monopolies because it has been more efficient to have one electric company provide power to a local market than to permit many electric companies to compete in a local market.

Table 3 - Characteristics of Entry Barriers

Easy to Enter if:	• Common technology • Access to distribution channels • Little brand franchise
Difficult to Enter if:	• Patented or proprietary know-how • Restricted distribution channels • Difficulty in brand switching

THREAT OF SUBSTITUTES

According to Porter, substitute products are products, produced in other industries, for other purposes. According to economic theory, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A close substitute product limits the possibility of firms in an industry to increase the prices.

INDUSTRY RIVALRY

In economic theory, competition among rival firms drives profits to zero. However, competition is not perfect and firms are not passive price-takers. Companies strive for a comparative and competitive advantage over their rivals and the intensity of rivalry among firms varies across industries. The intensity of rivalry is influenced by the many industry characteristics; larger number of firms increases rivalry because more firms must compete for the same customers and resources. The rivalry intensifies if the firms have similar market share, leading to a struggle for market leadership.

High fixed costs result in an economy of scale effect that increases rivalry. When total costs are mostly fixed costs, the firm must produce near capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market shares and results in increased rivalry. Low switching costs increase rivalry. When a customer can freely switch from one product to another there is a greater struggle to capture customers. Furthermore, high exit barriers cause a firm to remain in an industry, even when the firm is not profitable. Another exit barrier can be that specialised equipment is difficult to sell to buyers in other industries. Low levels of product differentiation are associated with higher levels of rivalry. Brand identification, on the other hand, tends to constrain rivalry. A diversity of actors with different cultures and history can make an industry unstable.

ANALYSIS OF DEMAND

According to Grant, two questions in this part of the model need to be answered in order to find the key success factors in a specific industry in the end. Firstly, "Who are the customers? Secondly, "What do customers want?" (Grant, 2000) We do however believe that to be able to know what the customers want in the BHL segment there are certain other aspects we have to include to be able to provide an accurate analysis of the complex BHL segment. According to Grant, the company needs to identify who the customers are, identify their needs and why choosing one product instead of another. While the model might be valid in Europe and in the US, the Indian BHL market is too dynamic and complex and the model is therefore supplemented with three additional factors (Regions, Areas of Interest, and Specifics For Market). These factors have been chosen in order to give an in-depth analysis of the demand due to the complex Indian market and we find it essential to split up the demand into smaller areas since the Indian market is to dynamic and complex to analyse according the regular model. By splitting the analysis of demand we believe that we will be able to offer a more vaild and detailed analysis of the demand.

COMPETITOR ANALYSIS

The competitor analysis model is an objective view of analysing the competitors to the case company and how they are operating today and predictions of how they will be operating in the future. The competitor analysis has been chosen to give a more comprehensive analysis of the competitive situation within the BHL segment. The starting point of the competitor's analysis will be to identify the current strategies of the competitors. This will indicate if there are any impacts that will force the competitors to change or if they will continue with the same strategy as they are using currently. These strategies can be identified based on what the competitors say and do. (Grant, 2000)

However, there can be a difference between the intended and realised strategy. The intended strategy can be found in the annual report of the company. Concerning the realised strategy, this can be identified in the competitor's actions and decisions. (Grant, 2000)

To forecast what objectives competitors have, it is crucial to investigate the competitor's goals. It is especially important to examine the competitor's objectives. A company driven by short- and medium-term profitability is a very different competitor than a company with long-term market share goals. (Grant, 2000)

The strategic decisions of a competitor are conditioned by the perception of the assumptions concerning the industry and about the business in general. Both are likely to reflect the theories and beliefs that the senior managers of the competitors hold about the industry and how they can be successful within it. Usually these systems of assumptions are stable over time, and converge throughout the industry. This belief on how the respected industry should operate is a threat to the entire industry when the external environment changes and the companies are limited to respond to these changes. This may also hinder the established companies to respond to action of a newcomer in the market place. (Grant, 2000)

When predicting a competitor's future strategy it is not enough to evaluate the current strategy, objectives and strategic decision-making. One of the key issues for investigating the seriousness of a competitor is to analyse what resources these competitor have and if they have the capabilities to use these resource efficiently. When predicting competitors' behaviour it is important that all above mentioned forces have been identified and analysed carefully, before a strategy is elaborated that might provoke the competitor to change strategy. (Grant, 2000)

These forces might be external, a shift in consumer preferences or a regulatory change, or internal changes a failure to meet the current goals. The four above-mentioned elements together provide a useful guidance as to the nature, likelihood and seriousness of a defensive reaction by the competitor. (Grant, 2000)

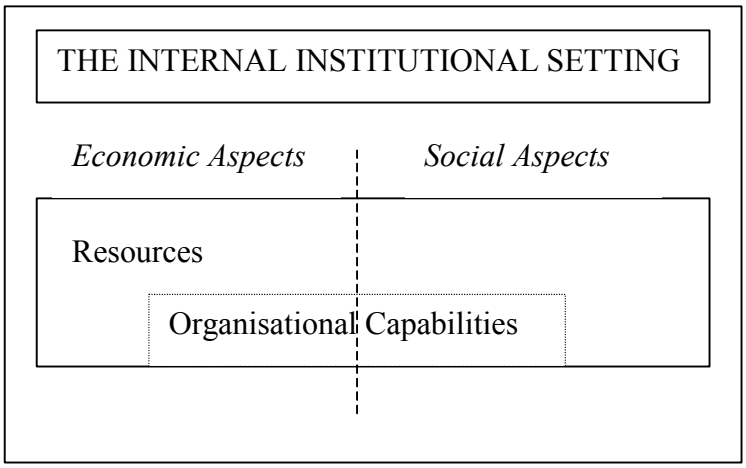
INDUSTRY KEY SUCCESS FACTORS

According to Grant, the identification of Key Success Factors is a process that can be used to detect what a company needs to survive and prosper under specific market conditions. According to Grant, two questions need to be answered in order to find the key success factors in a certain market, these regard the industry, customers and competitors. Firstly, "What do customers want?" Secondly, "What does the firm need to do to survive competition?" (Grant, 2000) As mentioned earlier, we have done modifications and supplemented factors to Grant's model to make it more specific in order to give an in-depth analysis of the key success factors for the BHL segment in India.

INTERNAL INSTITUTIONAL SETTING

The internal institutional setting is divided into two aspects, the economical aspects and the social aspects. The economical aspects include resources and capabilities; the resources part is divided into three categories tangible-, intangible- and human resources. (Grant, 2000) Within the social aspects one must investigate the social organisational capabilities.

Figure 8 - Internal Institutional Setting (Jansson, 2002)



RESOURCES: TANGIBLE, INTANGIBLE AND HUMAN

The tangible resources are simple to identify and evaluate in a corporation. The tangible resources consist of financial resources and physical assets. These will usually be found in the firm's financial statement. The capital within the tangible resources is the basis for creating a competitive advantage.(Grant, 2000)

In the longer-term tangible resources becomes less important to the company in terms of its contribution to value added and as a basis for competitive advantage. Many companies have started to include the intangible items on its balance sheet, such as capitalised R&D expenditure, goodwill, patents, trademarks and brand names. (Grant, 2000)

The last two mentioned are a form of reputational assets, meaning that the value for the customer lies within the perception and confidence the customer has of the brand. The value of the brand can be estimated through brand equity calculations. Companies can increase the value of its brand through extending the product or market scope over which the company market its brand. An additional important intangible asset is technology. According to Grant, a central issue when valuating technological resources is ownership. Law through patents, copyrights and trade secrets protects technology for a company. However, the issue of know-how is

unclear on who the owner of the knowledge is vague. In this model human resources is defined as the skills, knowledge, reasoning and decision-making abilities preformed by the employees of a company. These resources can also be referred to as human capital, meaning investments in education and training have been a key issue to capitalise these resources. (Grant, 2000)

ECONOMICAL AND SOCIAL ORGANISATIONAL CAPABILITIES

In this model, we will look at the economical organisational capabilities from the perspective of Grant. While when we investigate the social organisational capabilities we will use the findings of Jansson.

According to Grant, the term organisational capabilities refer to a company's capacity for undertaking a specific productive task. When investigating the capabilities of the firm one should not look at the company per se, but as a comparison with other firms. To establish what is or can be the competitive advantage it is important to examine what the company does better than its competitors.

STRATEGY

INTERNATIONAL RESOURCE-BASED STRATEGY

The International Resource-Based Strategy is according to Jansson a way to establish if the company has the organisational processes to develop strategies that can lead to competitive advantage. It is therefore vital to identify the factors that establish a firm's strategy, both internally and externally.

According to Jansson, the resources-based view is the organisation of the resources and the capabilities as the basis of competitiveness; however, Jansson also stresses the importance of letting the organisation of the resources and capabilities to be influenced by the national context, in which the firm operate. Furthermore, Jansson believes that two major strategic processes are found within the MNC, the inside-out approach, which is dominated by the International Resource-Based Strategy, and the outside-in approach, which will be presented in the Matching Strategy.

In addition, for the International Resource-Based Strategy, it is important to start with analysing the resources and capabilities, presented in the Internal Institutional Setting, and relate these to the external environment, presented in the External Institutional Setting.

MATCHING STRATEGY

The theory of matching strategy relates to how an MNC responds to the changes in the external environment. In Jansson's book, there are six alternatives for how the company operates towards the different institutions in the institutional framework designed by Jansson. In matching, an MNC is either following the rules of the external environment or actively influencing the environment to follow the rules of the MNC. The matching strategy takes place in three different external levels, the macro-, meso- and micro-level.(Jansson, 2002)

Table 4 - Matching Strategy (Jansson, 2002)

Strategies	Heuristics	Examples
Innovate	Generate Change Move Fast	• Developing a new product development routine • Creating flexible capabilities and organisational controls
Manipulate	Co-opt Influence Control	• Import influential constituents • Shaping values and criteria • Dominating institutional constituents and processes
Defy	Dismiss Challenge Attack	• Ignoring explicit norms and vales • Contesting rules and requirements • Assaulting the sources of institutional pressure
Avoid	Conceal Buffer Escape	• Disguising nonconformity • Loosening institutional attachments • Changing goals, activities or domains
Compromise	Balance Pacify Bargain Habit	• Balancing the expectation of the multiple constituents • Placating and accommodating institutional elements • Negotiating with institutional stakeholders • Following invisible, taken-for-granted norms
Acquiesce	Imitate Comply	• Mimicking institutional models

		• Obeying rules and accepting norms

The purpose of the matching strategy is to gain efficiency and legitimacy. The efficiency-based matching principle concerns with the issues of cost-efficiency and profitability in the market. This theory is based on strengthening the core competencies of the company, to be able to exploit the external market efficiently. (Jansson, 2002)

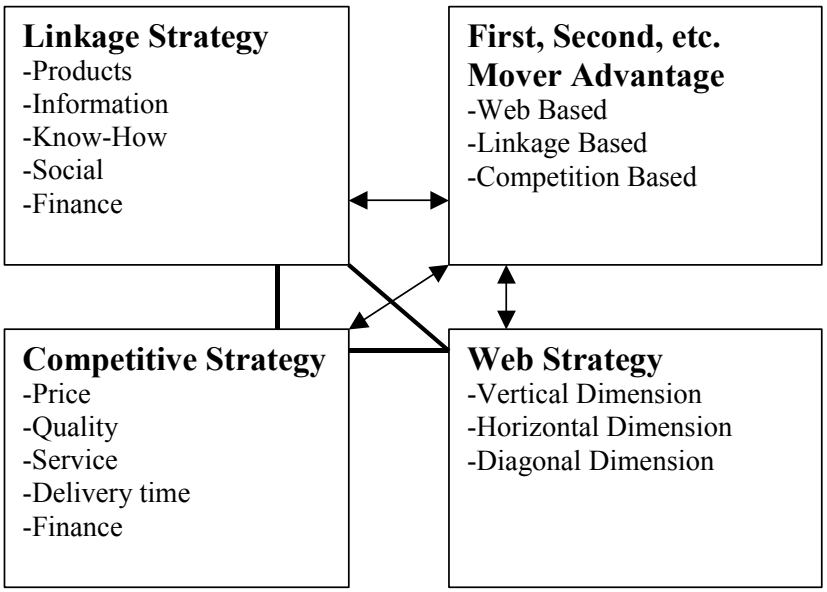
The other aspect of the matching strategy is the legitimacy-based matching principle. This is a major force within the organisational fields, where the company needs to remain within the rules, regulations, values and norms in the environment, to maintain its external support. Many companies will try to influence the institutions in a country; this is done to gain legitimacy from the governmental units and the other institutions. This is especially important in the emerging markets, where the government can play a vital role in the business environment. (Jansson, 2002)

NETWORK STRATEGY

Network strategy deals with how organizations, which are called actors, establish and enact linkages forming a network with the purpose of bridging various types of gaps and creating matches. Network strategy has four aspects: linkage strategy, web strategy, competitive strategy, and first/second mover advantage.

In order to understand where on which networks to focus its marketing efforts a company needs to map the marketing network situation and establish a strategic base for the network strategy. There are three major networks in the networking mapping to be considered, the vertical dimension, the horizontal dimension and the diagonal dimension. Firstly, the Vertical dimension maps the type of customers, consultants and suppliers. Secondly, the Horizontal dimension evaluates the competitors. The company should map the competitors to see if competition takes place on equal terms. Thirdly, the diagonal dimension main functions are financiers and government. Financiers deal with the company's ability to finance its customers. Government evaluates the importance of having a good relationship with the government. (Jansson, 2002)

Figure 9 - Network Strategy (Jansson, 2002)



THE WEB STRATEGY

The Web Strategy concern how the company is and how it should relate itself towards the market. This strategy included mapping of all of the MNC's relationships in the market, including buyers, sellers, competitors, government, labour, venture capitalists, as mentioned earlier. The web strategy deals with the mapped network and evaluates the information gathered and how that information can be used in its marketing efforts. For example, how broad or narrow the strategic approach should be, how concentrated the network should be and how many groups to focus on the web. (Jansson, 2002)

THE LINKAGE STRATEGY

The MNC's uses the Linkage Strategy to create and maintain healthy relationships with the various parties identified and mapped within the Web Strategy. The design of the Linkage Strategy emphasises the vertical relationship towards the MNC's suppliers but also towards its customers. The Linkage Strategy contains product, information, know-how, social and financial linkage aspects. Different

linkages are more important on some markets than others and some linkages are of greater importance in different stages of the relationship. The social linkage is of high importance throughout the relationship. The Linkage Strategy part of the Network Strategy, is of crucial importance to the longevity of a corporation. (Jansson, 2002)

THE COMPETITIVE STRATEGY

The competitive advantage is a very important part of the networking strategy. The competitive strategy is closely related to the MNC's horizontal relationship with its competitors. The competitive strategy covers areas such as price, quality, service, delivery time and financial issues. The strategy deals with the creation and transfer of information about the MNC's products and services to its customers by using the existing web of relationships. (Jansson, 2002)

FIRST MOVER ADVANTAGE

In order for a company to gain competitive advantage, it is of crucial importance to reach first mover advantage. The importance is not only to make the right move at the right time but also to find a mix and sequence of web linkages that can be beneficial in the long run. The advantage of these mixtures may be of critical importance at different stages in building relationships with the customers.

Furthermore, first mover advantage can also be created through a competitive offer. This involves a mixture of a linkage mix and a competitive mix that are interconnected. The linkage mix is influenced by the company's different offerings and creates a framework for the transfer of the competitive mix. If a competitor has achieved a first mover advantage, the strategic alternative becomes very limited for the company, since it would have to focus on second mover advantage. Third or fourth mover advantage is often very limited.

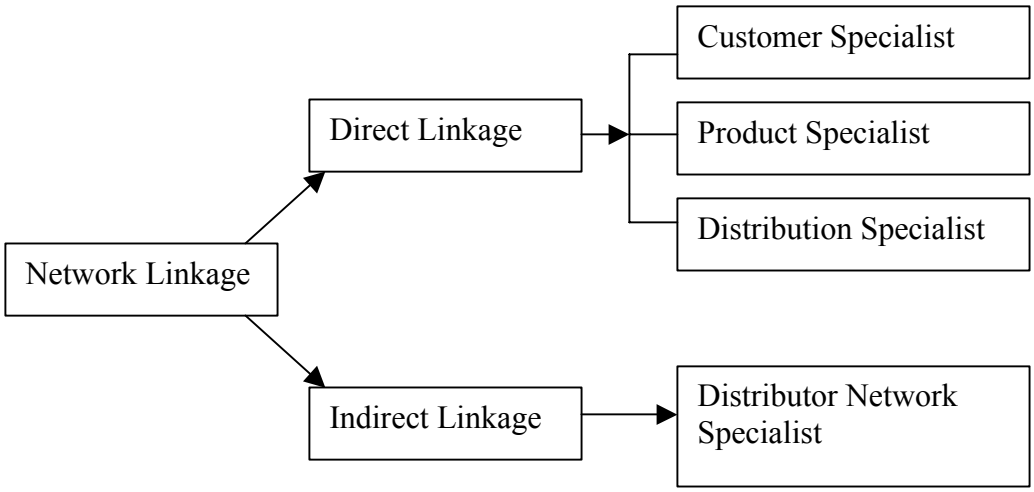
NETWORK CAPABILITY PROFILES

The network capability profile relates to the internal institutional setting, which is the marketing capability part of the internal institutional setting, which explains a company's ability to handle different kinds of webs and linkages. The network capability is first divided into two categories: direct linkage and indirect linkage.

The direct linkages are those that satisfy specific customer needs, meaning that the solutions are modified to fit each specific customers wants and needs. The indirect linkages focus on satisfying general customer needs, thus no specific customisation is present. In order for a company to offer any type of linkage solutions, certain problem solving capabilities has to be present or developed. These problem-solving capabilities are divided in low ordered capabilities such as specific employee needs, technical systems and high order skills such as management systems in the form of certain problem solving routines.

According to Jansson, a distinction needs to be made between the two main types of solutions, those that satisfy specific customer needs and those that satisfy the general needs of the customers. If the company's solutions are adapted to specific needs, the firm's capability profile is that of a *customer specialist*, while if the product is the key focus and the solutions are made to satisfy more common needs, the capability profile is classified as a *product specialist*. The distinction of direct and indirect linkages have to be made; if it is a direct linkage companies that are specialised at being intermediaries, with direct linkages established with the final customer, can be categorized as *distribution specialists*. If instead, the linkages are indirect, the strategic profile is called a *distributor specialist*. The linkages established by the product specialist and the customer specialist profile are both direct. Jansson has also made the distinction between the *marketing specialist*, who is looking for good marketing results and the *manufacturing specialist* who is producing products but does not have the capabilities of marketing them. (Jansson, 2002)

Figure 10 - Network Capability Profile's (Jansson, 2002)



CUSTOMER SPECIALIST

Customer specialist profile has problem solving capabilities for resolving problems and tailoring solutions for each individual customer. In addition, the marketing activities are directed at these specific customers. Customer specialist capabilities tend to come out of continuous contacts with the customers and learn to become accustomed with their changing requirements. The degree of linkage specifies the problem solving and other capabilities and resources are high. As a result, the switching cost between customers is substantial for customer specialists.

PRODUCT SPECIALIST

If the company has more general problem solving capabilities it is considered having a product specialist profile. The networking and marketing capabilities are focused on the product. The focus of the capabilities of a product specialist is on high functionality and consistent quality. The need for flexibility in marketing and production of the problem solving capabilities are less then for a customer specialist. The network of a product specialist is characterised by being stable for long periods, however, commonly adjusted during these periods.

Distribution Specialist

A distribution specialist has both a distribution and sales company. The focus is to integrate forward all the way to the customers in order to have direct linkage with them. Distribution network specialists concentrate on the possibility to transfer the problem solving capabilities to the customers, for example, skills in transportation and storage.

Distributor Network Specialist

A distributor network specialist transfers capabilities related to distribution and externalises to outside parties. In addition, it offer customers sales, warehousing, service and financing.

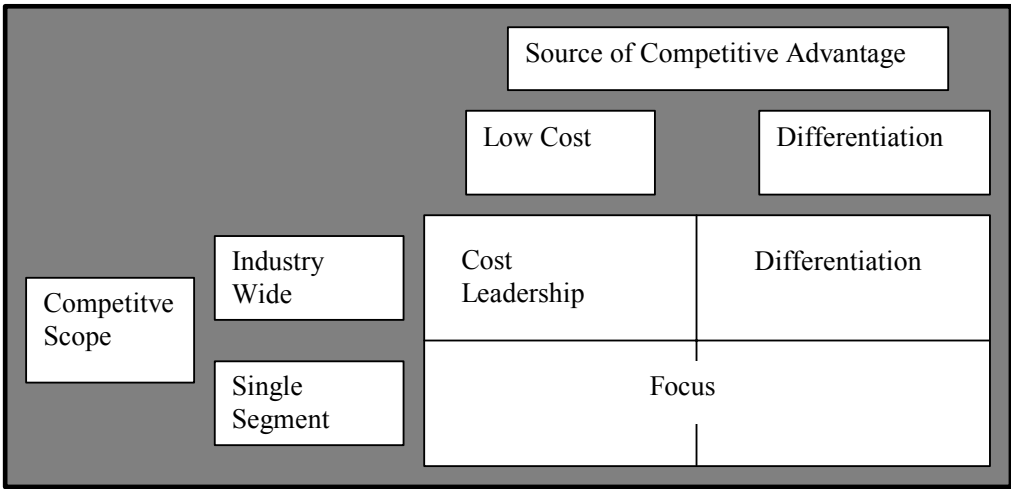
Competitive Advantage

According to Grant, competitive advantage is the firm's ability to outperform rivals on the primary performance goal – profitability. Furthermore, for a resource or capability to establish a competitive advantage it has to be scare and relevant. In addition, there are two ways for the competitive advantage to emerge, either through external or internal sources of change.

According to Porter, there are two types of competitive advantage, cost advantage and differentiation advantage. The cost advantage is emerged form producing a similar product as competitors for lower cost. The differentiation advantage is established gaining a price premium from a unique product.

Porter has defined three types of generic strategies, by combining the competitive advantages, discussed above, with the firm's scope, broad market or narrow segment, these strategies are cost leadership, differentiation, and focus.

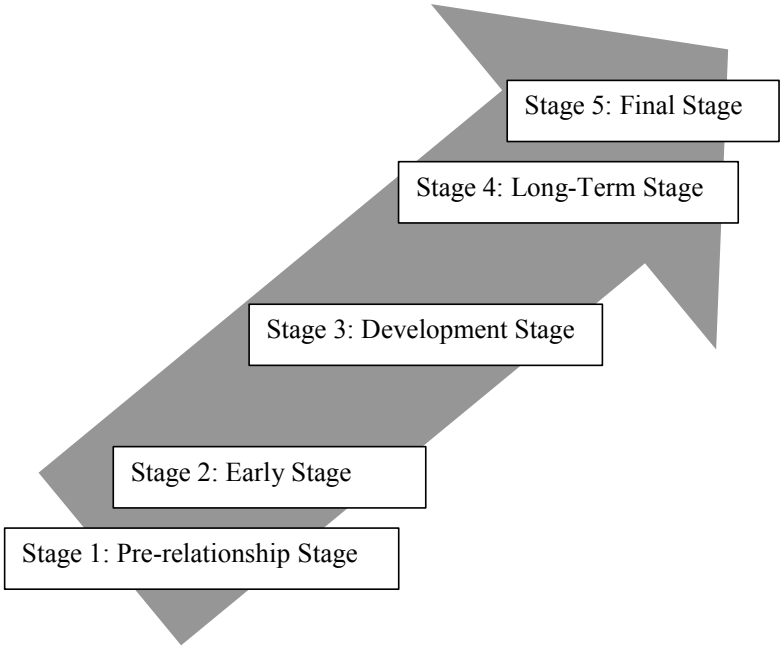
Figure 11 - Porter's Generic Strategies



THE DEVELOPMENT OF BUYER – SELLER RELATIONSHIPS

The relationship between buyers and seller is a complex relationship; it is developed during a long period of time and through numerous stages. Fords model; "The Development of Buyer – Seller Relationship" aims to explain the five stages of the relationship between buyer and seller. This relationship stretches from the pre-relationship stage to the final stage, passing through the early stage, development stage and the long-term stage. This can be viewed in Ford's model below.

Figure 12- The Five Stages of Buyer - Seller Relationships



STAGE 1: THE PRE-RELATIONSHIP STAGE

According to Ford, buying companies are inactive for seeking new sources of supply. These companies will continue with their existing suppliers with no focus of widening their supplier base, this is due to lack of knowledge or evaluation of the larger supplier markets. Buying companies of this sort will work on routine with their old suppliers until they make a decision of evaluating new potential suppliers. These evaluations are usually initiated by a particular episode in the existing relationship with their suppliers. Furthermore, the choice of changing suppliers could be based on internal consequences such as the buying company may implement new policies, or environmental changes such as new trade policies or environmental policies, which their current supplier cannot measure. When this occurs and the buying company starts to investigate new potential suppliers, this

takes place without any obligations or commitments for the supplier's side. (Ford, 1997)

Evaluation of a new supplier will be conditioned by three main factors; experience, uncertainty and distance. Firstly, experience is looked upon from the buyers perspective; their experience from previous and existing suppliers set the standard of judgement for the new partner. Secondly, the cost and benefits that a buyer will be involved with changing to a new supplier, will be a basis for uncertainty in a deal. Finally, the distance is the last of the three conditions that needs to be evaluated before changing suppliers. (Ford, 1997)

There are many aspects to the distance assumed between buyers and suppliers; social distance, cultural distance, technological distance, time distance and geographical distance.

All stages following the first stage will all be dealing with the concepts of experience, uncertainty and distance. Furthermore, the commitment of the both parties will be evaluated to explain the tightening bondage between the buyer – seller relationship.

STAGE 2: THE EARLY STAGE

In this stage of the relationship, the suppliers and buyers engage in serious discussions concerning the exchange. This stage can also involve sample deliveries of products purchased in larger quantities suitable for the market were the buyer is situated. The experience of each other is low in this early stage in the relationship. Both parties have a restricted view over the other company and what they hope to gain in the relationship. Furthermore, the uncertainty of both the companies is high, this generally relates to the human resource investments, which are made at this stage, due to difficulties to measure future rewards and costs. In the early stage, the distance between the two parties is still large. The lack of knowledge of the counterpart as well as the absence of personal relationships increases the social distance. (Ford, 1997)

The geographical and cultural distances are beyond the control of the seller. This distance can be decreased with the establishment of a local sales office or sending staff to the customer. The cultural distance can only be reduced by employment of locals Inexperience of the supplier's product and differences in process technologies will lead to technological distance. The time distance in the early stage concerns both companies. (Ford, 1997)

The buyer is concerned with delivery time, specification of products and price. At the same time, the seller is disturbed, lacking information about whether or not the deal has come through. Both the seller and buyer is troubled by the risks involved by setting up the deal, which affects the commitment of both parties. It is likely that the actual commitment between both parties is relatively low, however, many external factors judge this statement.

STAGE 3: THE DEVELOPMENT STAGE

The development stage of a relationship occurs when products have increased to be delivered over a period. This increases the experience of both parties; they have begun to understand how the other party operates. The knowledge of norms and values has also been transferred between the organisations. (Ford, 1997)

These experiences have also decreased the uncertainties within both organisations; they have also increased the awareness of costs and benefits of the relationship, which have decreased the uncertainty. The companies have also increased the trust between each other; due to increased social exchange and knowledge about the organisations have decreased the social distance between the organisations. Nevertheless, the trust that has been built up is also caused by individual experience of the dyad benefits of the relationship. The geographical and cultural distance is further reduced due to a reduction in the social distance. The adaptations done in both companies to take advantage of the opportunity they present for each other, has decreased the technological distance between them. The time distance has also decreased because of knowledge of the others organisation and personal contacts. Both the seller and the buyer have now an increased actual commitment to the business relationship.

STAGE 4: THE LONG-TERM STAGE

In the long-term stage, both the companies are highly dependent of each other. In this stage, the experience of both companies leads to the establishment of common operating practices, trust and norms of conduct. (Ford, 1997)

The uncertainty of dealing with its business partner is minimum, this can create problem in the long-term stage. The routines, which have occurred, might not relate well to either companies business practice. Ford refers to this phenomenon as institutionalisation. Both companies will become less responsive to market conditions, and this might turn into uncommitted. Companies may become dependent of their counterparts. The social distance is also minimised in the long-term stage.

Ford identifies three features to this close relationship between two companies. Firstly, extensive contact patterns involve several functional areas to effectively match and adapt systems and procedures. Secondly, strong individual relationships have been developed between the both companies. This will lead to a strengthen problem solving and informal adaptation that occurs; however these individuals can have problems separating personal and business relationships. Thirdly, the selling company can become personified through a single representative in the local office. This can lead to immense problems if this individual would be transferred to a different position in the company and replaced by another individual. (Ford, 1997)

In this long-term stage, the technological distance has been limited through a number of formal adaptations, closely integrating the control system of the companies; this will hamper entry of other actors of the market. The two companies have a high commitment towards each other in the long-term stage.

The commitment which is divide into two levels, the actual and the perceived level can create problems between the two parties. Firstly, the companies face the problem of becoming to dependent of each other. Secondly, the resources for the supplier that have be used to perceive commitment can have been cut due to cost

savings cause of the stable relationship between the two companies. This will lead that the supplier will appear less committed than in the developing stage of the business relationship. This can lead to that the buyer's starts over from stage 1, trying to find new suppliers that are more committed to their cause.

STAGE 5: THE FINAL STAGE

According to Ford this stage is reached in stable markets over a long period of time, when the companies involved pass into an extension of the institutionalisation and conduct business based of industry codes of practice. These codes may have little or nothing to do with business "as we know it", and more to do with avoidance of price-cuttings and restrictions towards changes. (Ford, 1997)

Chapter 4

EMPIRICAL STUDY

In this chapter we present our empirical findings in Sweden and our field study in India. The findings are presented in the following order: Volvo CE India, the Indian country and market, competitors, customers and the interactions in the market. These finding will be used in the next chapter were, we conduct our analysis.

VOLVO CONSTRUCTION EQUIPMENT INDIA

Volvo Construction Equipment established its operations in the Indian market in December 1998 and in November 1999; Volvo CE took over the operations of Samsung. The Articulated Hauler was introduced in 1999, followed by the Excavator and Graders and Wheel Loader. Volvo CE has been growing by 25-30% the last three years and the predicted growth for 2002 is 35-40%. The annual turnover for 2001 was USD 16 million.

Table 5 - Predicted Sales for Volvo CE India

	2001	2002	2003	2004	2005	2006
Articulated Haulers	4	2	4	8	8	10
Wheel Loaders	3	16	18	22	25	28
Excavators	42	51	55	65	70	75
Motor Graders	43	52	58	70	74	80
Compact Equipment	10	9	35	115	200	270
Total Number of units	102	130	170	280	377	463

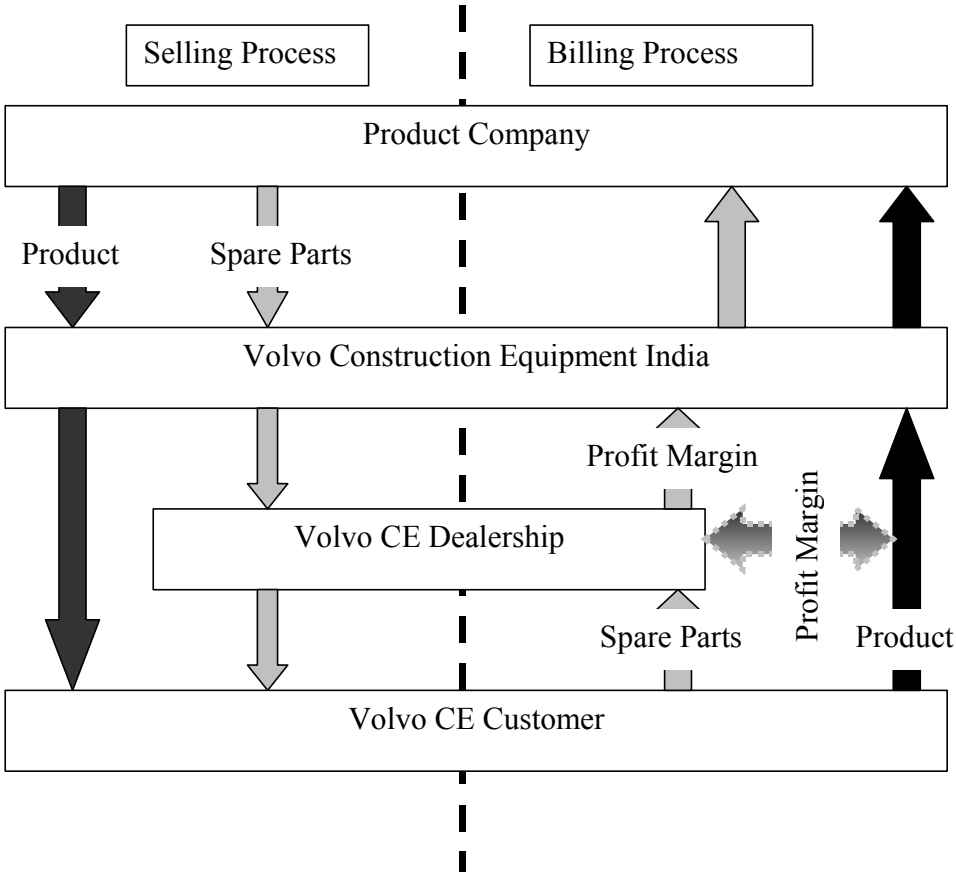
Volvo CE has 13 employees, five are connected to sales and marketing, seven are involved in customer support service, and one is involved in the spare part business. In 2003, Volvo CE plans to increase the organisation with four new employees. It is adding one new representative to the three above-mentioned departments, and an additional employee that will become a demonstrator of the products. When the BHL is introduced to the Indian market (2004) Volvo CE will start a new division for that business segment.

Volvo CE has five regional offices and the main office is situated in Bangalore. The five offices are sales and product support offices situated in New Delhi, Bombay, Calcutta, Hyderabad and Chennai. Fourteen service stations support Volvo CE's customers. Volvo CE has divided the Indian market into four sales and support areas; North, West, East and South. The sales and product support offices are located close to the dealerships. Area north covers New Delhi and supports the dealership Alpha Technical Services. Area west covers Bombay and

supports the dealership Svenska Technologies. Area East includes the cities of Calcutta and Hyderabad and supports the dealerships, UD Marketing Limited and Vijay Engineering Equipment. Area south covers Bangalore and Chennai and supports the two dealerships, Wilworth Earth Movers and Matmove Movers. Volvo CE has no local manufacturing or assembling, and all products are shipped from Europe or Asia. A shared information system makes it possible for dealers to find information about products, spare parts, prices and delivery time.

Volvo CE handles the distribution of the products; it sells the products directly to customers, mainly due to taxation reasons. Spare parts are sold to the six dealerships that later distribute the parts to the customers. The dealerships stocks spare parts covering two months of sales, but do not hold any products in stock. The Invoice Process of products is done directly to Volvo CE but the dealerships get a profit margin on the products. On spare parts, the dealerships take a profit margin before the payment of products is sent to Volvo CE. The Selling and Billing Process is shown in the Figure below.

Figure 13 - Selling and Billing Process (Own)



Approximate delivery time on products is 3-4 days if in stock in India, if out of stock about three weeks.

Volvo CE has warehouse facilities were the products are stored. It also has a duty free warehouse in Chennai; these products are not cleared in customs. Clearing in customs is a quick process, since Volvo CE has good relationship with the customs duties. This warehouse has been set-up to cut costs and decrease delivery time on products.

Volvo CE is planning to increase their distribution network to eight dealerships in December of 2002, and in December of 2003, they intend to have 12 dealerships as a preparation for the introduction of the BHL segment.

The requirement to become a dealership for Volvo CE is based on three key factors. Firstly, it is important for the person to have previous dealership experience, preferably in the construction equipment market. Secondly, the dealer must have a reputation in the market, especially in after-sales support. Finally, he must financially be capable of starting the dealership, hold storage and expanding the dealership. The financial strength is the least important factor, Volvo CE cannot add experience and reputation for the dealership, but it can help the dealers arrange financial support through commercial banks. The first dealership for Volvo CE in India was Alpha Technical Services, a dealership that was picked up in 1999.

Volvo Trucks and Volvo Buses have a production facility in Bangalore. The organisation has 320 employees. Its production facility is not used to full capacity, there is space that could be used for further production and additional product lines. The facility includes a large training area for truck and bus test-driving. Volvo CE is also conducting training at the production facility. In 2001, Volvo CE conducted seven training programmes that trained 65 operators, for usage of the Volvo CE products.

Volvo CE is targeting customers involved in irrigation projects, road construction, rental business, over burden removal, tunnelling, quarries, mining companies and export companies. Volvo CE identifies the customers by scanning the major projects. Volvo CE markets its products at trade fairs, exhibitions and advertisement. Volvo CE does not support the dealerships marketing activities.

In 1998, Volvo CE sold two products in the Indian market. Last year, Volvo CE sold 102 products and the predicted sales for 2002 is 130 products. The function of the dealerships is that it locates customers; the dealers conduct cold calling, meaning that the salesmen call on tenders, for the infrastructure projects published in newspapers. Face value is important for the customer. Products never get sold on the first call. Volvo CE and dealers work together for closing deals with customers.

Selling the product, Volvo CE decreases the price on the products through a sales strategy. The import duties are 50% that affect the customers view on the products. Firstly, to decrease the price is to conduct high-sea sales. Then the product is sold from the product company directly to the customer, this avoid the sales tax for Volvo CE India. The price of the product can be decreased with the sales tax, which varies from 8-12% between the states. Transporting a product within India makes the product viable to state taxes, which is an additional 8-10%, whom the customer is forced to pay. The predicted price on the Volvo BHL is about USD 45,000-50,000, which is approximately 15% more than for a Caterpillar BHL. However, Caterpillar as all other competitors in the market, has local manufacturing in India in order to bring down the price level.

Volvo CE is preparing for a potential launch of the BHL in 2004. The company is investigating the possibilities to increase the distribution and after-sales network, since this network would be the base in order to achieve its targeted market shares. Volvo CE is currently building-up its brand name in the market and Volvo CE is striving to get an understanding of the Indian market, customers and competitors, to create accurate strategies for future growth. Volvo CE is investigating the possibilities to establish local manufacturing, based on the market conditions. Volvo CE wants to expand organically by expanding their operations slowly into new regions in the country. Currently, the focus for further expansion for geographical coverage is the north-eastern region and the state Gujarat Volvo CE plans to have these regions covered within a year.

THE VOLVO CE INDIA DEALERSHIPS

Volvo CE has six dealerships situated in Bangalore, Chennai, Hyderabad, Calcutta, Bombay, and New Delhi. The dealership varies in size, structure and organisation. The dealership experience from working with Volvo CE is different from dealership to dealership. Alpha Technical Services, the dealership in New Delhi, is the oldest of Volvo CE's dealerships, while Matmove Movers the dealership in Chennai, only been a Volvo Dealer since February 2002.

The organisational structure differs between the dealerships. The dealerships in New Delhi, Bombay and Hyderabad, are all expanding its organisation. Currently,

these dealerships have 20-26 employees concentrating on sales and after-sales support. These three dealerships have 2-4 service stations, and are the dealerships selling most of the Volvo CE products in the Indian market. Alpha Technical Services is the dealership that sells most products. In 2001, they sold 56 products, which was 55% of Volvo CE's total sales.

The dealerships sale-forces work close with Volvo CE in all regions. It is structured in this way to help the dealerships with the sales, and for Volvo CE to get an understanding of the customers and competitors. When identifying new customers the dealerships, scan the market for tenders, conduct hot and cold calling. According to salesmen, the face value is very important too customers, as well as the selling company. The Volvo brand in India is becoming recognised for quality products, but it is still too expensive.

The margins offered by Volvo CE to the dealerships are in general between 1-2% on products and spare parts, which is industry average. Most of the dealerships have no complaints on the actual margins given, but the unusual complaint is instead that to few products are sold to be given an industry average margin by Volvo CE. The relatively low sales figures compared to international competitors are according to the dealers, Volvo CE's problem and not the dealerships problem.

The dealerships service engineers do the service on the product, and when need they receive consultation and expertise from Volvo CE. This type of service can take much time, since construction sites are in remote places and the communications abilities are limited. In this process feedback on product failures is communicated to Volvo CE, and this only occurs when the service engineers cannot solve the problems.

All the dealerships in cooperation with Volvo CE India offer training to both employees and customers. The Volvo CE personnel in Bangalore conduct this training. The training programme is mainly focused on operating the machines and the technical aspects of the machines.

Volvo CE does not offer any finance program, but assist dealership with extended credit if needed.

The dealerships believe in the relationship with Volvo CE and that the cooperation is working smoothly. Dealers and Volvo CE meet once a year. Some dealerships believe meeting on a regular basis would benefit the dealerships, preferably meeting on a quarterly basis. Since information could be shared between the dealerships and Volvo CE that could improve communication.

All the dealerships believe that marketing activities are needed from Volvo CE, increasing the marketing activities to build a brand name. Dealerships could increase its marketing activities, but those are not as financially strong as Volvo CE, and cannot afford marketing campaigns.

The six dealerships stock spare parts, but not products. The opinions about introducing the BHL vary between dealerships. When selling the BHL it can be imperative for the dealerships to stock products. Four out of the six dealerships are positive to introducing the BHL and keep products in stock. Two of the dealerships that are positive will have financial constraints for stocking products. The markets were the positive dealerships are operating are the largest markets for the BHL; in these regions 68% of the BHL are sold. The two dealerships that are negative to introducing the BHL and hold storage for the products are mainly negative because of the large investments they would have to make. Furthermore, these two dealerships are lacking the planning and adjustments that other dealerships have made for the introduction of the BHL.

The dealerships opinions are divided about the rental business, but the majority believes in the concept of rental but is sceptical about the new requirements that need to be fulfilled by the individual dealerships, such as stocking products. The opinions of the dealerships varies a bit, due to the market conditions in the area the dealerships covers.

INDIA: THE COUNTRY AND CE MARKET

In this section, we will present the Indian legal system, Government, Financial Market and the Product and Service market. These institutions are the most relevant to Volvo CE, presented above. Additional information of Indian and other institutions can be found in Appendix 1.

LEGAL SYSTEM

India is a union, divided into different states and union territories with the system of governance based on the British model. The constitution is federal, with a distinct power distribution between the central and state governments. The allocation of power relate to taxation, legislation and the social sector. Indians current legal system is based on the British common law system. The main sources of law in India are the constitution, statutes, customary law and case law.

The British values are not always upheld in the Indian system and enforcement of laws within the courts is not assured. The old laws have been revised several times since 1950, but the Indian system has not been fully adjusted since the independence. Certain areas have been modernized, but in all the body of law is outdated and characterized by complicated bureaucracy.

The problems with the Indian legal system and the weaknesses are affecting the speed of the economic development in the country, but certain parts of the system has been modernised, such as intellectual property rights. India's patent protection system was long regarded to be inadequate despite being similar to the British legislation. The problem was that laws were loosely enforced until the mid 1990's when the government began to realize foreign investment. The Patents Bill is designed to align India's legislation with the WTO's TRIPS Agreement without compromising the national interests. The TRIPS agreement will provide for a minimum standard of rights to the patent holder, while this will also increase the ability for patents and providing protection. The Foreign Exchange Management Act regulates transactions in the international context. With economic liberalization, the nature and extent of controls have been decreased significantly.

Joint-venture companies are the most popular structure for doing business in India. In India there are two principal forms of business enterprises in India. These are private companies and public companies; both are limited by shares, limited by guarantee or unlimited. Once a company has been incorporated under the Indian Company Act, it is treated under the same regulations as other Indian companies incorporated the Act and is governed by the provisions of the Act in respect of all matters. All foreign companies conducting business in India need permission from the Reserve Bank of India.

Even if the pace of change in the legal system has been relatively slow it has started on a national level and the focus has now turned to the state level. The state governments have influence on the regulatory framework for the state and it is advisable to investigate the legal system for the different states continuously since the differences and speed of change is highly different.

Furthermore, problems with the legal system in India is the belief that the responsibility of judges is to interpret the laws and in the case of uncertainty judge in favour of the citizens. This has led to many cases of judicial activism, the judges feel free to modify statutes or the Constitution, to use factors, which are not legal in their decisions, and to ignore the limits of their power in the search for results. The result of this is inconsistency and instability, of the legal framework, has lead to that some foreign investors withdraw their investments in India.

GOVERNMENT

India is a Sovereign Socialist Democratic Republic of union states with a Parliamentary system of Government. The Republic is governed in terms of the Constitution, which was adopted by Constituent Assembly on 26 November 1949 and came into force on 26 November 1950.

Sovereignty is shared between the central government and the states, but the national government has most power. The President is the constitutional head of Executive of the Union. Real power vests in a Council of Ministers with the Prime Minister as head, Mr Vajpayee. The Council of Ministers is headed by the Prime Minister in order to advice the President who is obligated to act in accordance

with the advices. The Council of Ministers is collectively responsible to the Lok Sabha, the House of the People.

The State government resembles that of the federal government. In the states, the Governor is the head of Executive, but power is with the Chief Minister who heads the Council of Ministers. The Council of Ministers of a state is collectively responsible to the elected legislative assembly of the state. The President appoints the governor of each state. The central government exerts greater control over the union territories than over the states, although some territories have gained more power to administer their own affairs.

GOVERNMENT TODAY

The Bharatiya Janata Party (commonly known as BJP) lead by Mr Vajpayee was re-elected to power in the fall of 1999 as the head of a 19 party coalition. This government continues the economic reform program initiated in 1991 by the Congress Party's. The direction of these reforms, which move India from a state planned economy to a market economy, is likely to continue. BJP have said that they will follow all WTO obligations made by previous governments.

The Government has simplified the administration and the tariff of customs and eliminated quantitative restrictions on imports and plans to continue reduce the tariff, but it remain high. The level of protection through the tariff remains relatively high compared to western countries but the Government has recently announced a further decrease in these measures and plans to continue reforms of the tariff and other taxes. The customs tariff accounts for approximately 30% of net government tax revenue, any additional reform of the tariffs depends on a restructuring of the tax system. Volvo CE for example has to pay a customs duty of about 50% on all imported products, which makes it hard to compete with the other actors in the industry that all have local assembly or manufacturing plants in order to avoid as duties and customs.

Restrictions on trade and competition have been reduced but problems associated with infrastructure and legal issues have become increasingly important in order to attract FDI. Liberalization of the FDI policy has not made the FDI increase

significantly and it currently accounts for 1% of GDP. The government has also taken various steps to improve the enforcement of intellectual property rights (see legal institutions).

WTO have recommended India to invest more in infrastructure to attract FDI and ongoing projects in sectors such as road construction, housing and telecommunications are heavily supported by the current Government.

Opposition by several parties in the coalition government to further further privatisation and labour law and to reduction in subsidies remains an important inhibition to modernizing the Indian economy. The government have done attempts to speed up the privatisation projects by trying to put forward legislation but since the current government lack majority in the Rajya Sabha (Upper House of Parliament) it is highly complicated.

THE FINANCIAL MARKET

India's financial system is similar to the British system. The constitution establishes the authority of the Parliament and than especially the Lok Sabha (House of the People) when it comes to financial matters. No central government taxes are levied and no government expenditure from public funds without an act of Parliament. Proposals for taxation or expenditures can be initiated only within the Council of Ministers and than often by the minister of finance.

Each state government maintains its own budget, prepared by the state's minister of finance in consultation with appropriate officials of the central government. Primary control over state finances rests with the state legislature in the same manner as at the central government level. State finances are supervised by the central government. The tax law in India has gone through several reforms lately, such as lowering of the corporate tax rates and reduction in customs and excise duties. Additionally, the tax structures varies significantly for the different regions within India, where some regions would offer potential investor much more profitable deals than other regions.

The Department of Economic Affairs and Ministry of Finance is the institutions that monitor current economic trends. This institutions gives advises to the government on economic issues.

The RBI is the responsible authority for issue of currency, the maintenance of exchange value of the Rupee and the body responsible of India's membership in the IMF. The currency in India, the Rupee has technically been convertible since 1992, but the currency is not convertible in the sense that the RBI sets the official exchange rate. The banking sector in the country is relatively weak, and many banks have experienced financial difficulties. The RBI is the central bank, executes the monetary policy regulation of credits, controls interest rates and plays the role as the banker as well as the financial adviser of the Indian government.

The banking system of India today, is split up into four different categories; Public banks, Private banks, Cooperative Banks and Development Banks. All the types of banks have a centralised control from the RBI and all of the banks have to follow the guidelines of RBI.

The leading Indian institutions that participate in financing construction projects are the Industrial Credit Investment Corporation of India, the Industrial Development Bank of India, and Infrastructure Leasing and Financial Services. Other institutions such as the World Bank and the Asian Development Bank have financed infrastructure projects proposed by the Government in the past.

There are plans from the Construction Development Council, to establish a construction equipment bank in India. The bank will not be a financial institution, but a unique pool of construction equipment. Project management companies will be able to lease expensive construction equipment from the bank by paying nominal charges instead of investing in large and specialized equipment for each project. The bank is planned to be owned by companies, contractors, spare parts manufacturers and will not involve Government in order to avoid bureaucratic hassle.

PRODUCT AND SERVICE MARKET

MARKET OVERVIEW

The demand for new construction equipment in India was approximately USD 2 billions in 2000 and predicted growth about 20% per year. The construction industry is one of the largest employers in India, employing more than 30 million people. It is important to distinguish between the different product segments in the construction equipment market in India. The products are split up into three different segments, heavy equipment that includes excavators, wheel loaders, graders and articulated haulers. The heavy segment has approximately 2000 products sold per year. The heavy equipment market is characterized by little technology in product features and low price competitors who make it difficult to sell larger volumes. The demand for most products are growing but there is a struggle to increase prices by international competitors lead by Caterpillar.

Table 6 - Heavy Equipment Sold in 2001

Products	Total Number of Products Sold 2001
Excavators	1300
Wheel Loader	450
Motor Graders	120
Articulated haulers	4

The second segment is the compact equipment, which is smaller and more mobile products such as; compact excavators, compact wheel loaders, skid steer loader and telescopic handlers. In 2001, the total market was about 1200 products for the compact equipment segment. All products except the telescopic handler are predicted to continue grow by an average of 5-10% per year depending on product.

Table 7 - Compact Equipment Sold in 2001

Products	Total Number Sold 2001	Dominant Actor
The Compact Excavator	625	TATA-Hitachi 95%
The Compact Wheel Loader	420	Caterpillar 60%
The Skid Steer Loader	110	Bobcat 75%
The Telescopic handler	Very few, less than 10	JCB

The last segment is the BHL, that product can due to its size and capacity be placed in between the two segments, mentioned above. The demand for BHL has been growing by approximately 20 percent as well, but have slowed down in the recent year and is today about 8-10 percent. The BHL market in India is about 3600-4000 products per year and it is the fourth largest market in the world.

The economic reforms that started in 1991 have lead to deregulation and privatisation of the construction equipment industry. Private companies are now free to bid for the government projects that in the past only were given to public companies. The private sector is allowed to establish joint ventures with foreign companies, except in some protected industries. Deregulations have lead to that many foreign companies have started joint ventures with large private Indian firms in order to take advantage from the infrastructure projects currently ongoing in India, but also due to legal matters that made it more or less necessary to establish joint ventures.

COMPETITORS

Leading construction equipment manufacturers in the Indian market are Larsen & Toubro (L&T Case and L&T Komatsu) JCB (formerly JCB-Escorts), CAT/Hindustan Motors, Tata/Hitachi. Significant for most of these actors are the venture between a foreign company and an Indian company. In general, the foreign company brings the technical know-how, the features, brand and quality, while the Indian company often handles the distribution and sales process. The reason for joint ventures is also due to past and current legislation that have almost forced foreign MNC's to establish joint ventures in India.

J.C Bamford (JCB) India was established in India in 1979, as a joint venture between JCB and the Indian domestic company Escorts. Today, JCB India is wholly-owned by JCB and the turnover for 2001 was USD 94 million. JCB India has 620 employees, dealerships not included. JCB is the dominant actor in the BHL segment with 80-85% of the market.

Caterpillar is a U.S company and the world's largest producer of construction equipment. Caterpillar entered the Indian market in 1954; however, they remained relatively passive until the 1990's. Caterpillar was operating in India through a joint venture with Hindustan Motors, the turnover for 2001 was USD 136 million, and the company has 1400 employees.

Tata/Hitachi is a part of the Indian company TATA, which have a joint venture with Hitachi. TATA/Hitachi and has been operating in India since 1987. Tata/Hitachi's annual turnover for 2001 was USD 134 million. Tata/Hitachi has 700 employees.

Larsen & Toubro (L&T) is India's largest engineering and construction conglomerate. L&T are engaged in two joint ventures, one with Komatsu (heavy equipment), and one with Case (light equipment, including compact equipment and the BHL). The combined turnover last year was USD 2 billion and L&T have about 300 employees, dealerships not included.

The construction equipment manufacturers have traditionally not been providing construction services. However, L&T do offer equipment and services from planning and designing of projects to actual construction. This competitive advantage have been recognised by competitors and many of those are evaluating the possibilities of offering similar service in order to be able to bid for government tenders directly by being able to offer a package solution. Additionally, when large contractors win different tenders they often sub-contract this to smaller contractors, which in turn often are the customers of BHL and Compact Equipment.

FUTURE

Areas of special interest for the future is for example road construction, India has one of the world's largest road networks of which half of the roads are not surfaced, and in order to make more funds available for the roads sector, the 1999 Indian Budget imposed a tax of one rupee per litre on diesel fuel. The Government puts major emphasize on modernizing the infrastructure and a recently launched project is the National Highway project, connecting the major cities by road. The Government have estimated that about 40 billion USD has to be invested in road construction over the next 20 years; a large part of this is construction equipment. Other areas that are of importance are telecommunications where large sums are predicted to be spent. The mining industry is dominated by government corporations and has been heavily protected until recently, and the current privatisation process is slow. The growth in the mining sector has been relatively slow due to lack of modern technology, high investments have not paid off and the industry have been highly protected and business have therefore not been run in the most professional way, but this sector is expected to grow in the future. The housing sector is estimated by Government to need investment of about another 40 billion during ten years, large part is once again construction equipment.

SOME SPECIFICS IN THE INDIAN CONSTRUCTION INDUSTRY

Typical for the Indian market is the heavy usage of the machine, a product that are recommended to be used eight hours per day is most certainly used for at least 16 hours per day. Additionally the price of manual labour is very low, and therefore price of product and price of spare parts is of crucial interest for a potential customer. Another key factor is the availability of finance, which often tends to be a complicated and problematic issue in the Indian market. Furthermore, the demand for technology-advanced products is low but has lately started to show signs of increasing demand.

THE COMPETITORS

In this section the manufacturing company and dealerships will be described together, mainly due to that the information is to large extent similar and a separate descriptions will most likely result in duplication of information, without adding new value to the report. Furthermore, we believe that Volvo Construction Equipment possess the relevant knowledge about the large international competitors, which makes it irrelevant to discuss. We therefore find it more accurate to provide information about the actual situation in the Indian market, which is characterised by a high degree of cooperation between the dealerships and the manufacturing company, giving us an opportunity to present them together in these sections below.

JCB/DEALERSHIP

J.C Bamford (JCB) was established in India in 1979, as a joint venture between JCB and the Indian domestic company Escorts. Today, JCB India is 100% JCB and the turnover for 2001 was USD 94 million. JCB India has 620 employees in manufacturing, sales and service.

JCB is present all over India and has 40 dealerships that in turn have 160 regional offices and 120 service stations. JCB's service stations are situated every 40 kilometre throughout India. The dealerships have a 3% profit margin on sold products, and 1.5-1.7% on spare part sales and service.

JCB have established requirements and standards that need to be fulfilled by a potential dealership. Firstly, long experience of the business and the region for the new dealership. Secondly, potential dealers need to be financially strong. For already existing dealerships JCB have standards that need to be fulfilled, the dealership have to reach set targets on a quarterly basis, if targets are not reached JCB eventually split up the region and they open a new dealership in that specific region.

JCB offers training to their own employees as well as dealership personnel on a regular basis in order to keep them updated on new products and features.

Furthermore, JCB and its dealership network have a shared IT-system, currently under reconstruction, to ease the exchange of information. The dealership has access to most parts of JCB's system and is able to find figures about products in stock; spare parts new features and so on.

The company has local manufacturing in India and the production plant is situated outside Delhi. The production plant is using local suppliers to decrease the cost structure of products. Furthermore, all dealerships are required to hold stocks of products and spare parts. The required amount of products differ depending on the demand for the product in the specific region, but on average the dealerships are required to hold 4–5 products in stock. The maximum delivery time on products out of stock at the dealership is approximately two weeks for products. The amount of spare parts held in storage is depending on how large the product population is in that specific region and a calculation on how many breakdowns the product on average makes. Typically during the warranty JCB and its dealership conducts eight services on the products, in Europe the number of services is four, but the product breakdowns in the Indian market are most certainly due to the misuse and overuse of the product. As an example a BHL that does around 1500 hours a years, does 3500 hours in India.

JCB do not offer any financial solution for their customers, other than assistance with external financing from commercial banks and institutions. Financial support by giving favourable credit term is on occasion given to dealership that face financial difficulties.

In the BHL segment, JCB is the dominant player and has a market share of approximately 80-85% of the total market of 3600-4000 machines, which are about 2800 products 2001. Price level of their BHL is about 10% higher than L&T and TATA/Hitachi BHL and is USD 35,000.

The most important regions for the BHL segment are the state Andhra Pradesh, and the urban areas. The New Delhi area is of specific interest for all competitors since about 70% of the purchases in that region are transported to other regions

and leads to that the brand is spread around the country without any efforts made by the company.

To promote and market the product a variety of instruments are used such as exhibitions, road show, on-site demonstrations, advertising in newspapers and trade papers. Additionally, JCB support dealerships with marketing of products on a local level.

The sales strategy is mainly focused on developing the current product, but also start to introduce new products in other segments. Large customers are at occasions brought to the manufacturing plant or to large exhibitions. Customers are visited regularly and the sales representative tries to interact on a personal level, by having lunch or dinner together. Sales and service organisations are constantly under revision in order for further improvements. Furthermore, the dealerships conduct their own sales strategies depending on the conditions in their specific region, but overall sales targets are set up by JCB for the different regions. For 2001, the dealerships had an average of double-digit sales targets.

JCB plans to expand and grow organically by entering the rental segment on a large scale, develop their current products by adding new technical features and introducing new products in other segments such as the excavators. Service to customers will increase, since JCB has decided to decrease the population of products per service station, from 25 products to 15 products. The growth target for 2002 is 7% this year. The growth rate for BHL so far this year has been 8%.

The customer segments have a varied spread and 50% of the customers are in the rental business or sub-contractors, 30% are the government and last the 20% are large construction companies. Expectations on JCB's products are high especially on the BHL, and the reason for buying that product is according to customers; the relatively low price, service network, availability of spare parts, fuel efficiency and the reputation of the brand name. JCB develop the relationship with customers through the dealerships, whom have had long-term relationships with the customers in the market. The dealerships function as the hub between JCB and the customer, they offer a customer network for JCB products. JCB has

representatives close to the dealerships and these representatives interacts in the actual selling process with the potential buyer. A large number of JCB customers are repeat customers and the relationships have been developed over a long period of time. In order to maintain and improve the relationship JCB's representatives interact with the customers on different levels such as offering training for the customers, information about new features, new machines, on spot demonstrations, and on large customers they interacts on a personal level by having dinner or going to manufacturing plant or an exhibition. In order to attract and find new customers the dealership search for contractors winning Government tenders in their region, a large number of JCB's customers contact dealerships themselves due to the reputation of the brand name in India.

Currently, JCB does not conduct any rental business, however a large proportion of their customers are firms that conduct rental business. JCB is currently evaluating the opportunities to develop their own rental business, and how to engage the dealerships.

JCB's predicts that there will be three main segments (infrastructure, telecommunication and mining), which will grow over the next 10 to 15 years. The BHL segment are predicted to grow for another couple of years before stagnation, the road sector, power plants, urbanisation and farming, will be the most important sectors for the use of the BHL. JCB do not find any hard competition in the BHL segment but Caterpillar is expected to be the largest competitor in the future. Caterpillar will compete in all JCB's product lines and this upcoming competition will be met by launching new products in other segments, and develop existing products. Furthermore, JCB consider starting up the rental business since they believe strongly in this segment for the future; incentives will be given to dealerships starting up rental businesses.

CATERPILLAR/DEALERSHIP

Caterpillar is a US company and the world's largest producer of construction equipment. Caterpillar entered the Indian market in 1954; however, they remained relatively passive until the 1990's. Caterpillar was operating in India through a joint venture with Hindustan Motors. The turnover for 2001 was USD 136 million

and the company has 1400 employees (not including the dealerships). Caterpillar has recently acquired a manufacturing plant in India.

Caterpillar has two dealerships for GMMCO and TIL, which are India's two largest dealerships, they consists of 80 regional offices. The two dealerships have divided the Indian market in north and south, and GMMCO covers the southern part of India, while TIL covers the northern part. The dealerships have eight regional offices, 20 branch offices, five residence offices and 47 site offices and three work shops. In 24 of the offices, products are hold in stock, due to taxation issues. The margins to dealerships range between 1-2% on sold products and 1.5% on the spare parts and service. The average delivery time on products is 5-10 days.

The dealership have a shared IT-system with Caterpillars and are able to find figures about products in stock, delivery times, spare parts etc.

Requirements for becoming a dealership are mainly experience from the business and financially strong, but since the dealership network is already established the only concern is the expansion of the distributor network, which is a task for the dealership GMMCO or TIL depending on the region. The expansion of the dealer network is the responsibility of the two dealerships and the requirement for becoming distributor or dealer is experience from industry, entrepreneurship and financial position.

Caterpillar offers training for employees and dealerships in India on a regular basis. Caterpillar educates the human resource department at the two dealerships. The two dealerships on the other hand have developed the training themselves and are training personnel on technical aspects of the products as well as sales training.

Caterpillar does not offer any finance to their customers, however they arrange finance through external commercial banks. CAT Finance that is used in many other areas of the world is not used in India due to weak legislation.

Caterpillar sold 1000 compact equipment products and 67 BHL in 2001. Caterpillar expects an increase in sales of BHL for next year, due to that local

manufacturing of BHL will start and Caterpillar will be able to decrease prices. The BHL will cost around USD 40,000. The most important regions in India are in the south, Karnataka, Andhra Pradesh and the large city areas.

The main marketing tools for Caterpillar in the Indian market are participating in exhibitions, trade fairs, road shows and advertisements of different kinds. Caterpillar does not support the dealerships in marketing activities, but do create their own marketing.

Caterpillar wants to be seen as a high premium product. Customers are found in large contractors winning Government tenders and customers for the compact equipment are mainly rental firms and subcontractors. Large contractors with financial strength are often the typical customers of Caterpillar products. Caterpillar has just acquired a local manufacturing plant and has set high targets for next year in for example the backhoe segment. Despite this, the dealerships still need to conduct cold calling to gain customers since the brand is not well established in the Indian market.

The growth strategy for Caterpillar in the Indian market is to expand the distribution network, after sales service network, local manufacturing will decrease the cost structure and rental business will be focused upon.

Caterpillar have different competition for different product segments, JCB for the BHL segment, but Komatsu and Hitachi is also large competitors in other segments.

Caterpillar wants to create long-term relationships with their customers, in order to receive a high retention rate. Caterpillar expects the infrastructure and mining (coal and iron ore) to be the most important segments for the next 10-20 years. Furthermore, the BHL segment is expected to continue one or maximum two more years. Rental business is an area predicted to grow tremendously and implementing the rental business at the Caterpillar sites is prioritised.

TATA-HITACHI/DEALERSHIP

TATA/Hitachi is a part of the Indian company TATA (80%), which have a joint venture with Hitachi (20%). TATA/Hitachi and has been operating in India since 1987. TATA/Hitachi's annual turnover for 2001 was $134 million and TATA/Hitachi has 700 employees.

TATA/Hitachi has 56 dealerships and 30 service stations. Additionally, at larger construction sites engineers are permanently placed. TATA/Hitachi's distribution network reach all over India, however they are more concentrated to Andhra Pradesh and New Delhi area. The TATA/Hitachi dealerships have a margin of 0.8-1% on sold products and 1.2% on spare part and service. Furthermore, dealerships are offered an incentive based margin system based on if targets are met. TATA/Hitachi and its dealership are to establish a shared IT-system, where information about products and parts can be found.

TATA/Hitachi has five requirements on new potential dealerships. Firstly, dealers are required to be financially strong, with a long profound financial record. Secondly, a reputation within the industry is important. Thirdly, a proactive personality, being able to see opportunities in the market and adjusting to reap the benefits. Fourthly, being able to strengthen the own organisation and expanding the dealerships as business grows. Finally, able to take own initiatives and acting independent.

TATA/Hitachi offer training, but only to new dealerships after that the dealerships themselves have to take care of training their employees. Hence, TATA/Hitachi train engineers to be able to service the new products entering the market.

TATA/Hitachi do not have local manufacturing of their product, however they have an assembly facility and use local suppliers to cut prices on the products. Assembling the products in India makes it less expensive than the alternative of imports. TATA/Hitachi have had discussions on starting a manufacturing plant in India, but no decisions have been made at this point.

The dealerships are required to storage of spare parts, but not products. Delivery time on products is approximately 10-15 days.

TATA/Hitachi offer no finance possibilities for their customers. The dealerships have a developed relationship with two commercial banks ICICI and Citibank, whom offer finance to customers.

TATA/Hitachi has sold 650 compact equipment products during 2002 and in 2001 approximately 175 BHL were sold. Estimations by TATA/Hitachi conclude that their market share in the BHL segment have increased with 2-5% since 2001. TATA/Hitachi's BHL are priced 10-12% lower than JCB, and the cost is USD 30,000-32,000. Spare parts prices are relatively high, due to import duties.

TATA/Hitachi's marketing consist of exhibitions, which is the only marketing made by the company. The dealerships do advertisements in local newspapers, but mostly the dealership engage in spot marketing going out to the small village presenting their machines to the population. Furthermore, dealerships and company conduct selling of products together; both parties are involved in the selling process. Dealerships do the initial finding of the customers, than the company and the dealership sell products together. This co-operation has proven to be very useful because the company get to know their customers better, and the dealership can take advantage of the knowledge and manpower of the company. TATA/Hitachi offers a bonus system for profitable dealerships. The dealerships find new customers by practising on spot marketing, cold calls and meeting contractors winning Government tenders.

TATA/Hitachi plans to grow organically through being able to offer better service by expanding the current dealer network, increase sales activities and to decrease prices on spare parts since substitutes have a large portion of their sales.

TATA/Hitachi has defined two customer segments the educated and non-educated customers. The educated customers are government and large construction corporations. The non-educated customers are rental business and sub-contractors. The non-educated customer are according to TATA/Hitachi a problem area for the

company, since they tend to misuse the products and demand new substitutes when a product breaks down due to overuse. TATA/Hitachi offers customer training as a tool to avoid this type of problem. Additionally a large number of these non-educated segment do not even have bank accounts, they come to the office with two plastic bags and pay for the products in cash.

TATA/Hitachi predicts that the future segment for the industry the next 10-15 years is within infrastructure, especially roads and telecommunication. Furthermore, TATA/Hitachi believes that the rental business will not be the success many competitors predict it to be, due to the fact that the price level of hiring is becoming to low, and has decreased from USD 13/ hour to USD 9/hour the last five years.

LARSEN & TOUBRO-CASE/DEALERSHIPS

Larsen & Toubro (L&T) is India's largest engineering and construction conglomerate. L&T are engaged in two joint ventures, one with Komatsu (heavy equipment), and one with Case (light equipment, including compact equipment and the BHL). The combined turnover last year was USD 2 billion and L&T have about 300 employees, dealerships not included. The future of the joint venture structure is unclear since Case has been acquired by New Holland and the future of their operation is to our knowledge not determined. Furthermore, Komatsu has lately started to focus more in the Indian market and it is not known if they are going to work with L&T if having two joint ventures.

L&T are present all over India and have divided India into six different zones. L&T's 28 dealerships cover the six zones, each with an average of 45 employees engaged in sales and services. The 28 dealers are supported by 4 high technology service stations offers all high tech services of the products, additionally they have a number of service people travelling between construction sites.

L&T has a local production plant for construction equipment in India, and local suppliers are used. The production facility is located in Bangalore and the plant is the storage for products. The dealerships have requirements on holding spare parts in stock, but no products requirements. The delivery time of products range

between 2-5 days. L&T and its dealership are to establish a shared IT-system, where information about products and parts can be found.

The dealership margins on sold products are within industry average (1-2%), but any specific figure was not given.

L&T has three requirements on potential dealerships. Firstly, a need to be entrepreneurial. Secondly, the technical capacity has to be high, supplemented by experience in the industry. Finally, a need for local presence and a reputation in the local community. L&T offer training to increase the technical know-how and customer attention.

In 2000, L&T sold 463 BHL. The price of a BHL is about the same as the TATA/Hitachi BHL, which is about 10% lower than the price of JCB's BHL, between USD 30,000 – 32,000.

L&T marketing strategy consists of advertisements in trade journals and newspapers, participation in exhibitions and road shows. In order to sell more products L&T are engaged in designing government projects, such as the infrastructure projects and bids directly on tenders for construction. Additionally, on-spot marketing, cold-calls and contacts with contractors wining tenders are the main ways of selling products. L&T do not offer any finance to their customers, however the dealerships help customers to arrange finance. L&T plans to grow by developing better interaction with their customers, made possible by expansion of the dealerships network and more efficient use of the personal and governmental network in order to win more tenders. Caterpillar and JCB are considered the main competitors due to Caterpillars experience from the construction industry and there superior range of products and JCB due to their first mover advantage in India and the distribution network they have established.

L&T's main customers in the compact equipment segment are the renting business and the sub-contractors, but they also sell to the large construction firms. The Government is not a client of L&T's products, but the products are used in the Government tenders L&T wins. The large part of the customers is long-term

customers, which are considered brand loyal and have a high retention rate. L&T offer training to customers on product bought, (usually training two operators per purchase).

L&T focus on infrastructure, telecommunication, and mining as the future segments of growth. Furthermore, L&T will to create products with fewer features to keep the prices down, because they believe price to be the crucial factor for the future.

THE INDIAN CUSTOMER

The customer base for BHL is wide and it includes customers ranging from large institutional buyers, international corporations to individual operators. The BHL segment is divided into three different customers. Firstly, the rental and sub-contractors is the largest customer segment. Secondly, the government and the army that buys a large volume of products. Thirdly, the large construction corporations are the smallest segment but they buy products every year.

RENTAL BUSINESS & SUB-CONTRACTORS

The rental businesses and sub-contractors are private firms, with less than 50 employees. The rental firms in India are small and a new business segment. The rental business has increased in the last five years, and the prices have decreased. The difference between the rental firms and the sub-contractors are that the rental firms only provide the product, while the sub-contractors provide product and operator. The sub-contractor is only an individual owning a product, doing work for the larger construction corporations. An example of an average company described above is Ram Engineering Limited, which is a rental business in New Delhi. It has been in the rental business for the last five years. Currently the company owns five JCB BHL. Every year they purchase one or two new BHL. For these BHL they use private financing and the products is paid for after two years. After three years, the company sells the products to the second-hand market. There were three reasons why the company buys JCB BHL instead of BHL from the other competitors. Firstly, the price on the JCB BHL. Secondly, the price of spare parts for the products and finally, the availability of spare parts on the market. Service network was an important factor, but not as important as the

three factors mentioned above, the company do their own services after the warranty time has expired. The perception the company had on the other BHL brands, Caterpillar, L&T and TATA/Hitachi, was that they had good products, but they preferred the JCB BHL, due to its reputation in the Indian market.

The rental firms and sub-contractors estimate that the business will be growing as long as the infrastructure projects continue.

CONSTRUCTION COMPANIES

The construction companies in India are owned both privately and publicly. These companies bid for tenders that the government publish in newspapers. The large construction corporations bid for the tenders for the infrastructure projects, especially the National Highway Project. On these tenders, there are certain requirements that need to be meet. Firstly, they need to have the products with the intended technical features. Secondly, the company must deliver the lowest bidding price. If the company fulfil these two requirements, they will be given the tender.

Before delivering the bid to the government the construction companies plan the projects, going over the tender to see what technical features that are needed. The procurement process for the large construction companies start with the technical specifications. Once established what products to use the company have an internal system, which they follow. These companies have five steps to cover when looking for the equipment. Firstly, the inventory, if they already have a product covering the technical specification. Secondly, the company investigates the possibilities to sub-contract the work were the technical specifications are lacking. Thirdly, they search the market to look for any available products for hiring. Fourthly, they are looking for second-hand products. Finally, the company decides to buy a new product.

Hindustan Construction Company (HCC), one of India's largest and oldest construction companies, is a customer of Volvo CE, Caterpillar, and JCB. Mr Dandiwala equipment manager declared that the most important factor for the company when choosing a product, from any company, is that the technical

specifications are met. HCC is using four Volvo Graders, for road construction projects. They also own Caterpillar excavators. At present HCC owns 25 JCB BHL, none of the product is older then four years. HCC is planning to purchase more JCB BHL in the next couple of years and do not see any reasons for purchasing the BHL from any other company. There were four reasons for HCC to buy the BHL from JCB instead of buying it from Caterpillar, L&T or TATA/Hitachi. Firstly, the JCB BHL is a simple products, it is user-friendly, secondly, HCC can service the product themselves, no advanced technological parts in the product, thirdly, the product is fuel efficient and finally, the price of spare parts and products.

The procurement procedure for buying new products always starts with the technical specifications. The company evaluate the technical specifications in the calculations in the planning stage of all new projects. There are four key factors for the company to choose a product. The technical specifications, the availability of spare parts in the Indian market (the company only uses original parts for their products), the uptime on products and finally the price of the product.

Even though brand loyalty is not important for these large corporations, they tend to stay with the same product company, for the same product lines. The factors that would influence these companies to switch brands are increased warranties, buyback schemes and decreased price on service.

GOVERNMENT

The government including the Army is the single largest customer of BHL in India. The army owns 600 JCB BHL, which they use for military construction. The government, excluding the Indian Army, purchase 5 % of the total JCB BHL sales per year, used by the different government bodies for construction improvements. According to JCB, the government is a customer that uses original spare parts, and JCB service engineers conduct the service on the products.

INTERACTIONS IN THE MARKET

The Indian market has few BHL suppliers and the dominant actor is JCB followed by L&T, TATA/Hitachi and Caterpillar. According to many dealerships, there

have been many technological changes to the products over the last years. The Indian BHL market is a national market; the BHL sold in the market is produced or assembled in the market. The BHL customers are also operating within the market.

According to customers, the BHL market is in a late stage of this growing stage. JCB has had a dominant position in the market in recent years, and have succeeded in building-up a long relationship with the customers as well as the dealerships.

The dealerships and the companies are operating close to the customers in the distribution channel. The companies and their dealerships are involved in the actual sales process. The dealership function as a hub to the market, a network to customers, while the company itself has to engage in the actual selling process and therefore has to have a regional office close to the dealership. Caterpillar, TATA/Hitachi and L&T are also structured in similar ways, close to the dealerships, to be able to give them support and assistance in closing deals with customers.

Customers are not dependent on the dealership, since they can buy the product from any of the four competitors.

In the relationship between all parties, there is cooperation and conflict. Conflicts of interest cannot be avoided in these relationships; everybody would like to be profitable. Cooperation between the parties is that the companies help the dealerships to sell products. The cooperation between the company and the dealership includes the sharing of information, knowledge and human resources.

The relationship between Volvo CE and the dealership has become integrated, when it comes to ordering of spare parts. The ordering of spare parts has been done over a period of time, the contracts are signed and the dealerships have made a number of purchases. The relationship between JCB and the dealerships have also been integrated when it comes to the ordering of spare parts and products. The dealerships have become integrated since dealing with many of the retention

customers that buy 2-3 BHL per year. The relationship between Volvo CE and the dealerships have also been adapted, they have a shared computerised ordering system. JCB and the dealerships are developing such a system, but it is not finished, only a few dealerships have them today.

Chapter 6

ANALYSIS OF EMPIRICAL STUDY

In this chapter we analyse the findings presented in the previous chapter. The models used for analysing the empirical data are presented in the Theoretical Framework Chapter.

INTERNATIONAL STRATEGY MODEL

Conducting our analysis of Volvo CE, we are using Jansson's International Strategy Model. This model is a part of a large network of models including the Basic Institutional Model, International Resource-Based Strategy, Matching Strategy and the Network Strategy. The five models combined constitute the basis for implementing the institutional approach towards a problem. Using the International Strategy Model we will analysis the internal and external environment, which influence the three strategies, as mentioned above. This in order for us to evaluate the competitive advantage for Volvo CE.

EXTERNAL INSTITUTIONAL SETTING

In this section of the analysis, we provide an analysis of the institutions affecting Volvo CE's operations in India. The analysis will only include those institutions relevant for the purpose of this thesis.

SOCIETAL SECTOR

Within the societal sector, we have decided to analyse the legal system since this institution, highly affects Volvo CE's operations.

LEGAL SYSTEM

The Indian legal system is complex and outdated. The system has not been fully reformed since the independence in the 1950's and the legal protection for an MNC entering the Indian market is relatively weak. The slow pace of reforming the legal framework has lead to the economic development and the rate of FDI staying low.

The legal system in India is highly bureaucratic, and even if the legislation within a certain area exists and is updated the actual legal procedure may take up to 10 years. The main reason why construction equipment companies not offer customer financing, which is offered in developed countries, is not only due to that the legal framework do not exist, but mainly because of the long bureaucratic procedure when the MNC has to take legal actions.

Some critics argue that the major shortcoming of the Indian legal system is the weak enforcement of existing legislation. Due to international pressure and membership of organisations such as the WTO the pace of restructuring the legal system and the enforcement of existing legislation has improved but still many international investors argues the pace of change is to slow. The lack of a fully implemented and effective legal institutional rule system is particularly evident in regard to the intellectual propriety rights, but by signing the TRIPS agreement India has agreed to implement an effective system by 2005. However, it still remains to be seen what happens, since India already has announced its intention to use its right not to implement this until 2005. Statements like this as well as clear differences in opinions about the future actions among parties in Government makes it difficult to fully understand what the actual intention in this reform process is, and even more important what actions will actually be taken by India in order to adjust to international standards.

As the pace of the reforms at federal level has accelerated, the focus of reforms has shifted to the state level. The states of India enjoy large power in regulatory issues and since legislation and standards varies dramatically between the different states and the importance of investigating the different legal settings in the states continuously, due to the relatively fast shifts cannot be stressed enough.

Although, the Indian legal system is inadequate and outdated in a number of sectors, actions and reforms undertaken by Government shows that the legal framework of India has improved in recent years. The membership of the WTO and the implications it will have on the Indian legal system further clarifies that even if the pace is relatively slow the Government of India is striving to meet international standard and has realized the importance of a valid legal framework in order to increase international trade and FDI. Legislation of importance for international MNC's has improved significantly since the mid 1990's and even if still remaining highly bureaucratic.

ORGANISATIONAL FIELDS

In the organisational fields, we have decided to analyse the institutions of most relevance to our case company and the research that we have conducted. These institutions are the government, financial market and the product and service market. All the institutions are affecting the actions of Volvo CE and the actions that the company will take in the future; therefore we believe that it is important that these institutions be covered in this thesis.

GOVERNMENT

NATIONAL GOVERNMENT

The Government of India lead by Mr Vajpayee's BJP coalition has continued the economic reforms starting in 1991. The pace of transformation has been slower during the current regime, than under the leadership of the National Congress Party, mainly due to opposition within the coalition. The direction of these reforms, which move India from a planned to a market economy, is likely to remain unchanged for a foreseeable future. BJP leaders have said they will pursue economic reforms through national consensus and has for example encouraged foreign investment in infrastructure sectors.

Government have announced spending in infrastructure projects in roads, housing and telecommunications. They have agreed to honour all WTO obligations made by previous governments and will not break any treaties. Since India already signed the agreements with the WTO and the outspoken intention by Government is to honour this agreement it is reasonable to expect that India will adjust to international standards in the long-term perspective. The major problem according to specialists is the time perspective within which these obligations are fulfilled. The process of change is relatively slow and sometimes hampered by several parties. Opposition by parties against further privatisation and liberalisation and reductions in subsidies remains a barrier in order to modernise the Indian economy.

STATE GOVERNMENT

The Indian constitution provides for a federal system of government, the power is split between the national and the state governments. The state government has control over a range of subjects such as land rights and taxation The state governments have been given the right to levy taxes to raise revenue for the administration and to determine policies related to land use. The central government levies direct taxes such as personal income tax and corporate tax, and indirect taxes like customs duties, excise duties and central taxes. The state governments are empowered to levy state sales tax and other local taxes, which differs between states. The tax laws in India are going through reforms, that has resulted in lowering of corporate tax rates.

BUREAUCRACY

The Indian bureaucracy is an additional factor that must be considered when making investments in the country. The bureaucratic process is time wasting and patience is crucial when dealing with the Indian government. Delays often occur in the bureaucratic procedure with a number of procedures that have to be fulfilled before receiving clearance.

FINANCIAL MARKET

The financial market in India is relatively weak, according to investment agencies mainly due to illiquid markets and lack of valid legal system. Historically, the Government has been highly involved in the financial markets and according to most critics the privatisation and liberalisation reforms have not been fully implemented in this sector even if Government has announced their intention of doing so. Adjustments have been made to some extent by handing over control over the financial sector to the RBI, but by western standards, the control mechanism by the state is still high.

The lack of capital and the difficulties of obtaining long-term loans have clear implications for the construction industry. Purchases of equipment as well as financing of infrastructure projects are subject to financial constraints and currently there are plans from different international organisations as well as

domestic organisations and companies within the construction industry to create a specialised construction bank, in order to ease the purchases or leasing of equipment.

Infrastructure projects are often dependent on international organisations financially support or borrowing to be completed. Sources of finance are to some extent available and when so to all companies equally, whether Indian or subsidiaries of international companies. The most important source for finance for the corporate sector is the capital markets. Companies are not required to obtain prior permission from the Government in order to access capital markets. Commercial banks are the main source of short-term finance. Several financial institutions provide local and foreign exchange loans for new capital investment projects and long-term working capital finance. Lending banks secure their loans with company assets or corporate guarantees from a parent company. It is argued that even if some reforms have been implemented and the possibility of obtaining some form of finance exist its highly controlled by Government and the bureaucratic process in certain is highly complex.

The financial condition varies significantly at the states level, and different taxation and investment policies are applicable for the different states. The regional power over some financial aspects are at the state level and it is therefore of importance to investigate the situation depending on state or region for investment.

In conclusion, the financial sector has developed to some extent and the market has been opening up to foreign competition. Serious issues still have to be handled and the financial sector has to be fully liberalised and privatised in order to create a healthy investment climate for potential and existing investors. Legal aspects have to be in accordance with international standards and requirements. The legal framework concerned with financial issues is of high importance for the construction industry because many of these large companies have a possibility of offering finance opportunities to customers, but do not do so, due to unclear and complicated legislation in this field.

PRODUCT AND SERVICE MARKET

The products and service market includes three different analyses, Analysis of Industry, Analysis of Demand and the Analysis of Competition. This was done in order to find the Industry Key Success Factors for the BHL segment on the Indian market.

ANALYSIS OF INDUSTRY

A modified version of Michael Porter's Five Forces Model has been used in order to analyse the construction equipment industry in India.

THREAT OF ENTRY

The treat of entry into the Indian Construction Equipment market is seen as relatively low, due to the high entry barriers within the market. The construction equipment industry is a capital-intensive industry and huge capital investment creates a substantial barrier for the new actors. Furthermore, most of the competitors have been established in the Indian market for some time and most have been able to create brand recognition, which would take time for a new entrant. The number of construction manufacturing companies is limited and most of the large brands in the world have already entered the market. Local manufacturing is also connected to the high investments needed and is more or less a condition if a company wants to be competitive in the market.

BARGAINING POWER OF BUYERS

The construction equipment industry is a highly standardized industry, the quality, feature and capacity is similar and the buyers switching cost is low. This gives considerable bargaining power to the buyers.

Purchases of construction equipment demands a substantial sum of capital and the Indian customer is highly price sensitive, especially due to the low cost of manual labour. In the buying process the Indian customer compares the price structure for the purchase including varies components connected to the cost structure such as parts, product, capacity and fuel efficiency. Furthermore, the demand for technological features is limited, the product just need to meet the technical

standards set up in government tenders. The average customer is not prepared to pay anything extra for additional features; even if a slow trend has started among the financially strong large contractors to demand high technology in new products. An extensive service network is an additional factor of value for customers.

The bargaining power of customers varies (even if high on average) among segments in the industry, but if looking at the BHL segment the bargaining power is quite high, due to that there are a number of actors offering similar products to relatively similar prices.

Threat of Substitutes

Construction equipment is a highly specialised product that is difficult to substitute by other types of products. When analysing the construction equipment industry as one separated industry it is logical not to find any threats of substitutes.

However, when analysing the industry itself, the threat for one company's product to be substituted by another competitor's product is relatively high. Hence, the largest threat of substitutes emerges from the country's vast labour force. This is due to the low cost of the manual labour. Furthermore, this threat has decreased in the large urban areas, however it is still a large potential threat in the countryside.

Industry Rivalry

The Indian construction equipment industry is concentrated to a limited number of actors. Less than ten actors control the industry, if analysing the BHL segment one dominant actor has 85% of the market JCB.

The rivalry has until recently been concentrated to a smaller number of actors due to the fact that they were the companies having local manufacturing and by having that could offer most competitive price. Recently, some additional actors have established local manufacturing or assembling and the competition will increase. An additional factor leading to increased rivalry and competition on price is the low switching cost in the market, which makes it easy for a customer to switch between different brands.

A number of segments within the construction equipment industry are growing and the competitors are able to grow without stealing market shares from each other. In other areas the market have reached the mature stage or is near this stage and competitors have to steal market shares from each other in order to grow. By having, this in mind the construction equipment industry in India can be characterized by moderate to high rivalry depending on industry segment. The BHL segment is predicted to reach the mature stage within a couple of years and the rivalry in this segment is therefore increasing.

ANALYSIS OF DEMAND

In 2001, the demand for new construction equipment in India was approximately USD 2 billion and the predicted growth is about 20% per year.

It is important to distinguish between the different product segments in the construction equipment market in India. The products are split up into three different segments, heavy equipment, compact equipment and finally the BHL. The heavy equipment industry is characterized by low technological features in product low price competition, which makes it difficult to sell larger volumes. The total market is about 2000 products per year and the demands for most products are increasing and there is a struggle lead by Caterpillar to increase prices in the market.

The compact equipment market was approximately 1200 products in 2001. All products except the telescopic handler are predicted to continue grow by an average of 5-10% per year. A common opinion among the actors is that the compact equipment segment is the most important segment for the Indian market in the future.

The demand for BHL was growing by approximately 20% from the mid 1990's until 2000 when the market slowed down and the growth rate is today about 8-10%. The demand for BHL is expected to reach a mature stage within 2-3 years. The BHL market in India is about 3600-4000 products per year and that makes it the fourth largest market in the world.

There are no typical buyer of BHL, but instead a wide spread of different customers ranging from the small new contractor to the army. The largest customers are the government, more specific the army, furthermore large institutional buyers and large construction corporations.

Specifics For Market

Typical for the Indian market is the heavy usage of the product, a product that is recommended to be used eight hours per day is in most cases used for at least 16 hours per day and manufactures have to realise that the conditions and demands in other parts of the world differs significantly from the demands and conditions in India. In general, the Indian BHL customer is highly price sensitive and since the price of manual labour is very low, the Indian customer compares the price of the product, spare parts, fuel efficiency and capacity with the alternative cost of manual labour. High technology features are still not something the average Indian customer is prepared to add money for.

Furthermore, when deciding that the calculations is in favour of purchasing a product, the second most important factors are the service and after sales network. It is of high importance for the customer to have a supplier that can repair the product quickly or support it with spare parts, a product that is broken for several days cost money and once again, the demands from customers can be derived from the price and cost sensitive. Reputation of the brand and ability to service the product themselves are other issues that is evaluated by customers when considering what brand to choose. Finance program similar to the once offered in other markets is an additional factor that some customers have found as an important increment for future purchases. The analyses of the typical customer above is purely a general analyses typical for the average BHL customer. If analysing larger firms and contractors it is a clear shift from price focus to service and performance focus. The key issues for these type of customers are mainly about the capacity of the product, service network, warranties, availability of spare parts and fuel efficiency, but the pure concentration on the price do not exist in this customer group.

The demand for construction equipment is highly dependent on investments in various infrastructure projects. When analysing the BHL segment one will find that development of the road network, housing projects, telecommunications and mining is of special interest.

Road Construction

The Government of India has announced its intention of urgently develop the road network and have estimated spending of USD 40 billion for the next 20 years, of which large parts obviously will be spent on construction equipment. A major project recently launched is the National Highway project, connecting New Delhi, Mumbai, Calcutta, Madras and Bangalore.

Telecommunications

India has one of the world's ten largest telecommunication networks, but it is in urgent need of reconstruction and expansion. The current Government has stated that the expansion and reconstruction of the current network is a prioritised area and high Government spending is predicted within the next ten years.

Mining Sector

The mining industry is dominated by government corporations and has been highly protected until recently, and the current privatisation process is slow. The growth in the mining sector has been relatively slow due to lack of modern technology, high investments have not paid off and since the industry has been highly protected, the businesses have not been run in the most professional way. However, the recent liberalisation and privatisation within this sector is predicted to result in high growth for the future.

Housing Sector

The housing sector and than especially housing for low and low middle class is the current issue on the political agenda and an estimation by Government is that investment of approximately USD 30-40 billion spend during 10 years is needed.

REGIONS

The most important geographical areas in India for the BHL segment are the New Delhi region, Mumbai area, the state Andhra Pradesh, Chennai and Bangalore. This is mainly due to that the government projects are located in these regions and urban areas.

ANALYSIS OF COMPETITION

In the Analysis of Competition, we will analyse the four competitors, JCB, Caterpillar, TATA/Hitachi and L&T, presented in the empirical study. To analyse these competitors we have decided to use Grant's framework for competitor analysis. We will analyse the current strategies, objectives, assumptions, resources and capabilities of the competitors, to come up with the predictions for the future changes the competitor's are likely to be made. This analysis will focus on the BHL segment and we want to point out that conditions may differ significantly in other product segments.

STRATEGY

According to Grant, the basis of the competitor's analysis is in the competitor's strategy. Without any external change, it is very likely that the competitors will continue in the same patterns as currently. The competitor's strategy can be identified on the basis of what the competitor's says and what they are currently doing.

JCB has been able to establish a strong brand name in the Indian market and they want to be the number one player in some segments and among the three top brands in other segments. JCB aims at increasing its market share within the BHL segment. JCB focus on developing the BHL product but has also start to introduce new products in other segments of interest. JCB has a first mover advantage in the BHL segment and have been able to establish a superior dealership network situated every 40 km throughout India.

Caterpillar Global, aims at always being number one in all its product segments. Caterpillar entered the Indian market in the 1950s, but has not focused until

recently, due to the complex market conditions, and low demand for high technology products. In the last few years, the market structure has changed and the demand for technology-advanced products has increased and is predicted to continue. Caterpillar offers a wide-range of products and has recently established a production facility, where the goal is to produce all products sold in India, due to taxation regulations. Caterpillar is positioning themselves as a high premium product in the Indian market.

TATA/Hitachi wants to be a leading manufacturer in the construction equipment industry. They plan to grow organically through increase the service level by expanding the dealership network. TATA/Hitachi competes with low priced products and are planning to lower the price even further on spare parts since substitutes is a large portion of their potential sales.

L&T is engaged in two joint ventures with Case and Komatsu and is India's largest construction and engineering conglomerate. L&T is market leader in some product segment, and is a large actor in many segments. L&T is the only actor engaged in planning, designing, and constructing government tenders, which has given them a great advantage. Furthermore, L&T has a wide product range and extensive distribution network throughout India.

OBJECTIVES

According to Grant, any forecast of competitor's changing its strategy it is imperative to have some knowledge of the competitor's current goals. If the competitors are performing under expectations, the strategies of the competitors are likely to change.

JCB's dominant position within the BHL segment starts to be challenged by international competitors and than especially Caterpillar that will start local manufacturing of the BHL in 2003. The market share for JCB products has fallen about 15%, and is today about 80-85% of the market, which is about 2900 products. JCB has been forced to change its strategy, and its current goals are to increase sales by focusing more on the customers and new product segments. Furthermore, JCB tries to defend its position in the BHL market by offering

relatively low prices, widespread after-sales support, and increasing technology in the BHL. The main reason is obviously the stiffed competition, especially from Caterpillar, starting up local production and expanding their distribution network in order to take full advantage of huge opportunities in the Indian market.

One of the objectives for Caterpillar is to increase their market share in the BHL market, by localising the production and by doing that being able to decrease prices on both products and spare parts. Caterpillars overall goal in the BHL segment is to become the major actor. Additionally, new dealerships are set up close to JCB's in order to challenge their superior distribution network. Currently, Caterpillar is reaching their goals, however they have had some problems in the compact equipment segment, due to high prices, since local production has not yet been established.

TATA/Hitachi aim to become number one or two in all product lines they have operating in India. They try to achieve this by producing technology-advanced products to low prices and manufactured in India. Furthermore, TATA/Hitachi sold 79 BHL in 2001, and their objective for 2002 is to sell 120 BHL. Currently, TATA/Hitachi is not meeting their goals in the compact equipment market, except for in the compact excavator segment, but believe that their focus will in time make them market leaders in India. In the future TATA/Hitachi is likely to put more effort of growing in the compact equipment market, due to the potential predicted in this market.

Finally, L&T's objective is to develop and enhance interaction with their customers to achieve a higher retention rate by customers. In order to receive this there are plans for expansion of the dealerships network and more efficient use of the personal. Additionally, L&T is the only actor in the market offering complete package including designing and construction of government projects. Currently, L&T is the second largest player in the BHL segment. In 2001 L&T sold 403 BHL, and for 2002, 450 BHL are predicted to be sold. L&T offer a low price on their BHL, and it is sold for 10% less then the JCB BHL. The L&T goals for selling more BHL are in line with their expansions of the dealership network; due

to this expansion, they are able to reach more of the rental and subcontractor customers.

INDUSTRY ASSUMPTIONS

According to Grant, the perception and assumptions that the competitor's currently have about the industry and itself is the basis of the strategic decisions.

The assumptions about the BHL industry are relatively similar analysing the different actors. The high growth that have characterised the BHL product in recent years has decreased and the market is predicted to stagnate in two to four years. Furthermore, JCB is considered the dominant actor because of its superior distribution network, and excellent reputation due to the long presence in the market.

The actors only consider a company to be a serious competitor if having local manufacturing in India, mainly due to the high custom duties on import. A general view is that the construction market has matured and that the demand for technology-advanced products slowly increases. Capacity and fuel efficiency are other important factors that have to be considered in this market. According to most actors the after sales service network is the second most important factor after price in the Indian market. Furthermore, the government sets the minimum technical standards for products by establishing requirements in the tenders for infrastructure development.

Dealerships

It is of importance to have company representatives close to the dealerships, since the function of the dealerships is very different from that in the western world. The function of the dealership in India is to be the hub that connects the customers to the product company and the representatives have to be involved in the actual selling of products.

Rental

The companies have different opinions about the rental business, were all competitors except TATA/Hitachi believe that this segment is to expand in the

coming years. TATA/Hitachi however, believe that this segment has reached its limit and no further expansion in that segment is possible.

Spare parts

The problem connected to sales of spare parts is a problem shared by all competitors to a certain extent. The Indian market is filled with low priced substitutes from domestic producers, in which quality not can be guaranteed. It is a tendency among customers to use original part while the product is under warranty and than change to substitute products. Original spare parts are sometimes priced 100% higher than substitutes and a couple of actors with long experience from the industry estimates that a reasonable price to pay for a customer in order to just buy original spare parts is maximum 25-30% higher than the lowest priced substitute. Local manufacturing of spare parts assists a company in its strive to decrease prices in order to increase its market share but it is important to point out that local manufacturing does not make it possible to offer spare parts at lower prices then substitutes.

Future and current segments for business

Road construction, housing, telecommunication and mining are considered the most important business areas for the BHL. These sectors are already presented in the analysis of demand.

Important areas for business

The most important geographical areas in India for the BHL segment are the New Delhi region, Mumbai area, the state Andhra Pradesh, Chennai and Bangalore.

Company Assumptions

JCB in itself is a strong company and has far grown roots in the Indian market and community, and believe that this will benefit them in the long-run. JCB believes they have a strong and dominant position in the BHL market and are confident that they will be successful when entering new segments.

Caterpillar believes they have good opportunities in the Indian market, due to the wide offering of products. Furthermore, Caterpillar believes that demand is changing towards more sophisticated products and the most obvious choice of product would than be a Caterpillar. Looking at competitors Caterpillar see JCB,

TATA/Hitachi and L&T as fierce competitors, however Volvo CE is not a key competitor since they lack production in India and therefore unable to compete on prices.

TATA/Hitachi believe that their main competitors L&T and Caterpillar will focus on the infrastructure and mining segments, however they believe that they are superior to these firms mainly because they have the lowest priced product, a wide product range and a good service network. JCB is their main competitor in the BHL segment, but they do not think that their supremacy will last for long, since themselves, L&T and Caterpillar are and recently have entered the market.

L&T is convinced that their most fierce competitor will be TATA/Hitachi and Caterpillar and JCB will continue to be strong in the BHL segment. Furthermore, their position as second place in the BHL segment will last for many years.

Resources & Capabilities

According to Grant, it is not enough for a company being able to predict the strategic changes its competitors are likely to make, but a key issue for a firm is to evaluate the seriousness of the potential threat from competitor's.

Financial Strength

The four competitors analysed in this thesis are all considered financially strong in the Indian market. L&T is the largest actor based on turnover (USD 2 Billion), but these figures include other areas than construction equipment. L&T is India's largest construction and engineering conglomerate. All actors have large investments in offices and manufacturing facilities all over India. The problem with finance occurs on the dealership level, where Caterpillar's two dealerships seems to be the strongest players even though JCB supports dealerships in order to be competitive.

Technology

The technology standard varies significantly, and the low priced products offered by TATA/Hitachi and L&T do not include much of the high technology in Caterpillar's product. From a global perspective, Caterpillar is the superior player

in technology and invests large amounts of capital in R&D every year. They offer a wide range of products and are closely followed by the Japanese company Komatsu, which is the second largest player in the world. The problem in the Indian market is that most customers are more concerned about price than technological features, but the opinions are slowly changing. Caterpillar has also introduced the concept of technology in the after sales and service network, and engineers are equipped with digital cameras that can be used to send pictures of problematic breakdowns to specialist mechanics, which makes it possible to cut repair time. All actors have or are planning to install shared computer networks where information regarding products, spare parts in stock, delivery times, information about new products and competitor information can be obtained.

Human Resources

The construction industry is characterized by the fact that employees tend to shift between the different actors. The only competitor that has not experienced the turnover of key employees as a problem is JCB. The reason for this might be the high prestige connected to working for this brand compared to other brands in the market.

All competitors offer various forms of employee training. Caterpillar and JCB offers regulary training in order to keep their employees updated on new products, new technologies, new working methods and other issues relevant for their individual area of work. The employees of JCB and Caterpillar possess very good knowledge of the products and the market, compared to other competitors. Furthermore, all actors train dealerships, but some actor's only offers training for new dealerships, while others offer regularly training. Additionally, dealerships tend to offer training in sales and technical training to their employees at regularly basis.

Dealerships

JCB has the best dealership coverage of all the competitors in the industry. A total of 40 dealerships that in turn have 160 regional offices supplemented by 120 service stations is twice as many as Caterpillar that have the second best coverage. JCB has one office every 40 km throughout India. Both JCB and Caterpillar has

high requirements on their dealerships to have products and spare parts in stock, while TATA/Hitachi and L&T only have requirements on stock of spare parts. Additionally, there are a number of requirements set by the companies on potential dealerships such as prior experience in the industry, attitude, knowledge about the local market and the financial situation.

Margins on sold products range between 0.8%-3.0% and some actors offer bonus system for profitable dealerships. Common for all the actors are that they all have situated regional offices close to the dealerships since it is a necessity for the company to be involved in the actual selling process due to that the dealership merely function as a intermediary between seller and buyer. An additional incentive for having regional offices located close to the dealership is to control that the dealership fulfil the high standard of the brand and not discredit the brand name. There is a tendency among the dealerships to refer to themselves by the brand name and not the name of the dealership, since it is more prestigious working for an international company than an India dealership. All the competitors have local manufacturing or assembly, which is a necessity in order to be able to offer competitive prices, due to the high tariffs on imports.

Reputation

JCB has been able to establish a superior reputation in the BHL segment, mainly due to its first mover advantage. The reputation of the other brand names is also high, especially in other product segments but since our main focus in this analysis is the BHL segment JCB's reputation is outstanding. The Caterpillar brand is still widely known but directly connected to a higher cost since Caterpillar has not started local manufacturing of the BHL yet. Once the local manufacturing starts Caterpillar will be able to compete more on price even if still higher than JCB the projections are from both JCB and Caterpillar that their market share in this segment will increase. It is important to point out that other brands such as TATA/Hitachi and L&T have excellent reputation in other product segments.

Retention Rate

L&T, TATA/Hitachi and JCB all claim to have relatively loyal customers, while Caterpillar claim to have extremely loyal customers. Caterpillar's advantage over

the other competitors is probably connected to its worldwide reputation in construction equipment. Since the other three actors offer lower price, than Caterpillar, they fight for another type of customers, new entrants or customers with a highly limited financial situation. While Caterpillar's customer often tend to be larger contractors or smaller highly profitable customers that when entering the business used the other three actors products, but have realised the benefits in having Caterpillar's products. Once started purchasing Caterpillar's product there is no other brand with higher global reputation on quality, capacity and service. However, since the Caterpillar products are expensive the customer base is highly limited compared to the other actors.

Sales / Marketing

All actors have split up the Indian market and everyone except TATA/Hitachi has established a special division handling the BHL segment. TATA/Hitachi on the other hand has only split the market into regions where every salesman is responsible for their area. The contractors winning new tenders are the primary customers for all competitors, furthermore cold calling and personal meetings are used as instruments to reach new customers. L&T is the only actor engaged in offering complete package to government tenders, in which they offer planning designing, products and construction of new projects.

A marketing tool used by Caterpillar and JCB is on-spot demonstrations. Representatives from a regional office or dealership make an appointment with a high representative for a village and show him the products in his village and hope for the word to spread. All competitors use exhibitions, trade fairs and advertisement in branch magazines to do marketing. A few of the actors support the dealership in marketing, by funding or material while other dealerships have to do their own marketing. Marketing activities are not a prioritised area among the actors in the industry.

Finance Programs

No financial packages are offered by any of the actors, mainly due to the weak legislation in India. Additionally, all competitors offer assistance with external financing for the customers.

PREDICTIONS OF COMPETITORS BEHAVIOUR

None of the competitors considers Volvo CE as a serious actor in the Indian market. Local manufacturing is a vital condition in order to be able to compete in the Indian market due to the high tariffs on imported products. If Volvo CE establishes local manufacturing the perception of the company will be changed. It is an overstatement to conclude that the actors view Volvo CE as a real potential threat for the future, but most of the actors agree on the fact that in certain product segments the market share for Volvo CE products could be significant. A problem for Volvo CE is the small range product range currently offered.

The response if Volvo CE enters the market is hard to predict since the competition already has started to stiffen. Furthermore, it is hard to determine competitor's action since the price of a Volvo CE BHL not is known as of this point. If looking at Caterpillars launch of an India manufactured BHL, we have found that JCB is constant surveilling Caterpillar closely and any actions taken by Caterpillar will lead to counteractions, most likely price reductions. The future of L&T operations might be uncertain due to that the joint ventures with Case and Komatsu. Case has been acquired by New Holland and the future of the joint venture with L&T is as far as we know not decided. Furthermore, Komatsu is predicted to increase the focus and efforts in the Indian market and it is questionable if they will remain in a joint venture with a dealership that handles two international brands.

The individual actors plans to grow by increasing service, either by expanding dealership or increase personnel, technological features will be added to products, spare parts prices is predicted to decrease and a key word is more customer focus. Rental business is considered a highly interesting business even if prices for rental have decreased significantly

KEY SUCCESS FACTORS FOR THE BACKHOE LOADER SEGMENT

Cost Control

The first and far most important key success factor in the BHL segment is cost control. It is impossible for a company to be competitive in this segment if not having local manufacturing of products because the import duties are very high, on both products and spare parts. Additionally, related to the cost control is the operational cost of the product for the customer, more specific fuel efficiency, price on spare parts and capacity of product. The price of gasoline is high in India and many customers value the fuel efficiency as a very essential factor when considering which product to purchase.

Distribution Network / Service

India's geographical size is huge and the transportation possibilities are limited at least within an acceptable time constraint. The importance of a widely spread distribution network is therefore a key factor for the actors in order to be successful. Local dealerships and regional offices are important for a number of reasons. By having a full coverage distribution network, the individual dealerships are able to create personal relationships to local customers and since many customers of BHL are small contractors widely spread all over India local presence is essential, the delivery time of spare parts and products is short and thereby are the company able to offer a better service to customers. Additionally, the company must have representatives situated close to the dealerships, since control of the dealerships are essential to maintain high standards of the brand. It is further highly important that dealerships and the companies regional offices possesses a prior knowledge of the market, products and the brand are supposed to represent. Furthermore, the prime function of the dealerships is to be an intermediary between the seller and buyer and the representative have to be involved in the actual selling process at least when larger deals are to be closed.

Requirements on Dealerships

It is important to have established requirements that have to be fulfilled by potential dealerships. Relevant factors are prior experience in the market, local awareness, entrepreneurship, ambition and financial strength. Furthermore, it is important to have requirements for products and spare parts in stock since customers value short delivery time high.

Quality and Features

The quality in the product must be relatively high due to the special conditions in the Indian market. Products that are recommended to be used 6-8 hours per day are used 16-18 hours per day. Furthermore, the demand for high technology products are so far limited and an average customer is not prepared to pay extra for additional features. Additionally, products of high technology often tend to be complicated or impossible to service yourself, which makes up a substantial barrier since customers wants to be able to do minor repairs themselves.

INTERNAL INSTITUTIONAL SETTING

In this section of the thesis, we will look into the resources and capabilities of Volvo CE and see how they manage these in the organisational capabilities.

RESOURCES

According to Jansson, the resources and capabilities of the organisation are not productive in themselves, but they are a basis of competitiveness and profitability.

Financial Strength

In 2001, Volvo CE sold 102 products and is predicted to increase by 25-30% to reach 130 products in 2002.

The turnover last year was USD 16 million and Volvo CE is currently using the same resources as they did last year. This shows that the company is performing sales beneath its actual potential, or that the company's products has found the niche market in which a high premium product can be sold. However, in order for Volvo CE to be able to sell products in India to a larger population of customers

its products need to decrease in price. Furthermore, the organisation acquired a new dealership early in 2002, and has not yet seen the potential of what this dealership is capable of in terms of sales. Volvo CE has six offices and warehouses that are the company's physical resources in India; these resources are located throughout India to have a good coverage close to the dealerships.

Finance Programs

Volvo CE does not offer any internal finance to dealerships or customers on the Indian market. The company has however increased the term-of-payment for the dealerships. In addition, the company has good relationships with commercial banks, which arrange the finance for the company.

Technology

The technical knowledge in the relationship between all parties of is relatively high, the Volvo CE has the know-how on how develop the products and produce them, the dealerships have knowledge on how to service the product and the customers know-how to operate and in general they also know how to service the product. Even though Volvo CE India is importing products, the international organisation have the ability of producing the products, on the local level Volvo CE has the knowledge and expertise to contribute to the dealerships service. Furthermore, the product company is training the personnel from both the dealerships and the customers in order to increase their technical knowledge. In addition, there are low technical barriers between the company, dealership and customer. However, the Volvo CE product is more technically advanced then other competitor's products, the exception is Caterpillar discussed above, this can incur implications for the customer when deciding on purchasing the product.

Reputation

Volvo CE has a good reputation among Indian customers; it is a high premium product with good quality, however many of the customers believe that the products are too expensive. Furthermore, the reputation and brand name of the company and product is improved, due to the sales representatives are active representing the company during the sales procedure. These representatives also control the dealerships so that they do not discredit the Volvo brand, through

presenting themselves as Volvo personnel, and not living up to the Volvo CE standards.

HUMAN RESOURCES

Volvo CE has five employees that are involved in sales and marketing, seven employees are involved in customer support service, and one employee is involved in the spare part business. The employees involved in sales and marketing, and customer support service are located in the four regions India has been divided into by Volvo CE. Volvo CE is lacking one additional sales person in order to have one representative situated at each dealership, which hampers the focus Volvo CE has on the sales of products.

In 2003, Volvo CE is expecting to have eight employees working with customer support service, compared to the seven employees today. These employees support the dealerships with consultation and expertise, when product failures occur. Additionally the individual dealerships have their own fleet of service people, which handles minor repairs and service. The Volvo CE engineers are only contacted when the dealerships cannot solve a specific problem. This process is some times inefficient since the construction sites where the product failure occurs can be hard to reach, which increase the downtime on the product. A large number of the customers, contact the dealership or Volvo CE for product failures during the warranty period, when the warranty is over these customers prefers to service and repair the products using different alternatives. Volvo CE's dealerships has 14 service stations in order to support Volvo CE's customers. The shortage of service stations is an important reason why Volvo CE has problems selling products in India. Product failures are more frequent in India than in other parts of the world, so it is imperative for the company to be close to the customer and service should be even closer to the customer.

It is important to point out that there is an uneven standard on the individual dealerships. While some dealerships possess deep knowledge about the market, the Volvo brand and how to manage a dealership in order to fulfil the standards and requirements of the Volvo brand, others do not possess these competencies

and it is therefore questionable whether these dealerships should be included in the Volvo CE organisation.

In 2001, Volvo CE conducted seven training programmes that trained 65 operators, for usage of the Volvo CE products. This is an important part of the selling of the products since the operators are unaware of the technology that Volvo CE have brought to the Indian market. It is therefore a condition that Volvo CE train the operators of the products, so that they can operate the product efficiently, otherwise the customers would not pay the high premium to purchase the Volvo CE product.

ORGANISATIONAL CAPABILITIES

According to Jansson, the organisational capabilities are the key element to improve the competitive situation of the company; it is through the organisational capabilities a company can reap the benefits from resources that are valuable, rare and inimitable or costly to imitate, to create a sustainable competitive advantage.

ORGANISATION

Volvo CE has a decentralised organisation that is located close to the dealerships, while the strategy formulation is created in the main office in Bangalore. The regional offices deal with the day-to-day operations of the company. The dealerships are centralised even though the dealership has representative offices, however the decision-making is centralised to the owner of the dealership.

ORGANISATIONAL INTERACTION EXPERIENCE

Volvo CE's organisational experience concerning interactions with dealerships and customers is broad, since the organisation is involved in many of these relationships. The dealerships of the firm are not always exclusive distributors of the company they as well have experience with similar relationships. Furthermore, the customers are buying other products, then Volvo CE's, and therefore they have experience from such exchanges in previous occasions. The dealerships and customers are very satisfied with the products and the relationships they currently have with Volvo CE. Hence, the customers are brand loyal, but if a product is presented for them that is cheaper than the one they are using they will switch

brands, since price is the most important factor when customers purchase a product.

Sales/Marketing

In order for Volvo CE to sell products in the Indian market it is a requirement to be situated close to the dealerships and customers. The six offices are located close to the dealerships in order to support the dealerships in the sales of products. In addition, these offices also help the dealerships to manage its operations and arrange finance for customers and dealerships. This is important, because the Indian customer is diverse and a large proportion of the customers are capital weak. However, it is time consuming, and shift the focus for the dealerships and Volvo CE, that instead should focus the sales of product. In India, Volvo CE is targeting customers involved in irrigation projects, road construction, rental business, over burden removal, tunnelling, quarries, mining companies and export companies. However, the main instruments used when selling the product to the customers are still price cuts and offering training programs. Currently, Volvo CE markets its products at trade fairs, exhibitions and by advertisement in branch magazines. All the dealerships believe that marketing activities are a necessity in order to strengthen the brand name. However, the dealerships are not ready to produce their own marketing campaigns, because of their capital weakness or inability of producing marketing material. Furthermore, Volvo CE does not support the dealerships marketing activities.

Volvo CE also has warehouse facilities were the products are stored. The dealerships do not hold storage for products, only spare parts, due to that many of the dealerships are capital weak. The lack of having products in stock at dealerships, can sometimes affect the customers opinion of purchasing products. A large portion of the customer would prefer to receive their products directly after payment. In addition, the lack of storage has also led to that the dealerships have been unable to demonstrate the products at the dealership, which can be a problem, that affect the purchase of new untested products.

The sales procedure in India is time consuming and a product is never sold on the first call or visit to customers. Therefore, the sales representative have to put as

much time as is possible in selling new products in order to get a broad customer base. Currently, this is not possible, due to the lack of independence of dealerships, and problems with arranging finance for customers. In addition, Volvo CE is expecting to increase their dealership network to 12 dealerships in December 2003, but only add one new Volvo CE representative.

Selling the Volvo BHL under these market conditions, with a predicted selling price of USD 45,000-50,000, will be extremely difficult. Firstly, all other competitors locally manufacture or assemble in India, which decrease the price of the products, and if the Volvo BHL is more expensive than for example Caterpillar's BHL it will be impossible to sell. Secondly, if the dealerships do not stock products, the decision by customers to purchase a Volvo BHL instead of a JCB or Caterpillar does not exist. Furthermore, only four of six dealerships are positive to introducing the BHL under the conditions of having to buy and stock the BHL themselves. This can create problems when introducing a new product to the Indian market.

DISTRIBUTION/DEALERSHIPS

The main function of the six dealerships is to locate customers; this is done through cold calling and by contacting large contractors that are winners of government tenders. The first reflection the customers have on Volvo CE is through the dealership, this face value presented by the dealerships is very important to the customers and for Volvo CE and it is therefore, Volvo CE is involved in the actual selling process of the products. An additional reason for having local representatives close to the dealership is to control that the high standards connected to the brand name are fulfilled by the individual dealership. The margins for dealerships on sold products are 1-2%, which is about industry average, however the dealerships are complaining that they are not selling the same large volumes as the other international competitors, and that is according to the dealers, Volvo CE's problem and not the dealerships.

Due to the complicated taxation structure and high import duties Volvo CE is engaged in a complicated distribution and sales process in order to offer lower prices without having local manufacturing. The products are distributed directly

from Volvo CE's manufacturing plants to the customer without dealerships handling the products. By doing this Volvo CE is able to decrease prices with approximately 8-10%. Since Volvo CE's manufacturing plants are located outside India the delivery time is prolonged to roughly 3 weeks, which results in a number of lost deals. Nonetheless, with the tax avoidance the Volvo CE product is still considered a high premium product, and it is still difficult to penetrate all customer and market segments.

The New Delhi area is currently the most important and profitable market for Volvo CE in India. Distribution and stocking of spare parts (2 months supply) are performed by the dealerships. The spare parts are stocked at the dealerships main office, as well as in the service stations in order to cover as much of the area as possible. Each dealership has 2–4 service stations.

Volvo CE is planning to increase their distribution network to 12 dealerships in December 2003, in order to cover a larger population of customers, but it is also a preparation for the BHL introduction. The dealerships have different opinions of the future for the BHL, but most believe that it will be profitable and are prepared to do capital investments and reorganisations. The other two are unwilling to make investments, because they are uncertain of the BHL market in the regions that they cover or the future of the product.

There are three main requirements to become a Volvo CE dealership in India. Firstly, previous dealership experience, secondly, the dealer must have a reputation in the market and lastly the dealer must be financially capable of starting the dealership. However, after the dealerships are picked up there are no policies on what is expected on the dealerships, which is not the case for large competitors such as Caterpillar and JCB.

Volvo CE is planning to increase the number of dealerships by six and this expansion of the distribution network is the foundation for Volvo CE plans to reach their targeted market share in many of the segments. In addition, this network will also be used by Volvo CE to increase its spare part business, which is performing under its potential. This new expanded network of distributors and

service station, will most probably improve the conditions for Volvo CE to compete in the Indian market. Additionally, Volvo CE is planning to introduce the rental business for all their dealerships. The opinion about rental varies, due to the market conditions in the area and the attitude of the individual dealer. Hence, the main reason for the dealerships not wanting to invest in the rental business is because they will need to stock products that can be rented. Additionally, some parts of India have more rental business than others, and some areas have no rental business. Therefore, some dealerships cannot see the benefits of investing in a business they are unable to understand.

STRATEGY

In this section of the analysis, we will present the three strategies that are to be analysed in Jansson International Strategy Model. We will analyse the strategies in the following order International Resource-Based Strategy, Matching Strategy and the Network Strategy.

INTERNATIONAL RESOURCES-BASED STRATEGY

According to Jansson, this strategy evaluates the resources and capability in the company and if its strategies are inline with the company's strategies influence by internal and external factors.

Volvo CE's business strategy consists of four key elements, to become competitive on the Indian market.

Firstly, prepare for the BHL introduction, which includes developing the distribution network for sales, service and spare parts. This strategy is aligned with the external environment, since the competition in the BHL segment have well-established distribution networks.

Secondly, Volvo CE aims to develop the organisation, increase the competencies of the employees, and add additional employees. This is necessary in order for the company to cover the vast country.

Thirdly, Volvo CE aims at improving the organisational understanding of the Indian market, and identifies any factors necessary to succeed and become competitive. This is important since the Indian market is a complex market, the customers have different factors that are important and it is the same for the different regions of the country.

Finally, Volvo CE is trying hard to establish its brand name on the market, to build-up the population of Volvo CE products used and increase the parts business; in the end have a profitable growth. Establishing its brand name is important, since the company is a relatively new player on the market and that the customers of BHL is a segment difficult to identify. It is important for a company to market themselves; this is aligned with the preparation of the BHL introduction and the conditions needed for the Indian market.

MATCHING STRATEGY

In this section of the Analysis Chapter, we have matched Volvo CE with the external institutions presented in the Basic Institutional Model. Furthermore, this is important since this show how Volvo CE operates towards the different institutions, and what is needed to be done in order to co-exist with these institutions, with Volvo CE's small organisation.

LEGAL SYSTEM

The complex and inconsistent state of India's legal system provides a challenge for any MNC entering the country. Volvo CE India, is *complying* with the norms values and codes of conduct of the Indian legal system, when doing business in India. Many of the systems are outdated and are practices and laws in often open to interpretation by different judges. However, Volvo CE's sales strategies are developed to *avoid* parts of the legal system, especially taxation regulations. Furthermore, the inefficiency of the courts in India and the lack of financial legislation has led to that Volvo CE *avoiding* financing products for customers.

GOVERNMENT

Volvo CE is currently *complying* with the norms and values of the national government. Volvo CE is using an *influential* strategy towards the state

government, to improve their relationship and competitive situation in the market. However, Volvo CE still is adjusting and working by complying to government regulations and some other existing rules in Indian society. In addition, Volvo CE is *cooperating* with the government on increasing the standards on technical specification given on tenders. If Volvo CE influence the government to increase the technical specification on the tenders their premium products would become more competitive on the Indian market.

Financial Market

In the financial market Volvo CE is *complying* with the established rules and regulations, in order to operate in the Indian market. Volvo CE is also *influencing* the financial market through recommending particular external finance companies to its customers. The finance companies give the Volvo CE customers preferential treatment, which decrease the amount of paperwork needed to arrange finance for products. Furthermore, Volvo CE would like to influence the financial market more to increase the benefits, such as decreased interest rate, for its customers to borrow capital for products, currently Volvo CE has no capacity of doing so, due to its small organisation.

Product and Service Market

Volvo CE has been active on the Indian market for the last five years, the growth of the company has risen from selling two products the first year to a predicted 130 products in 2002. Volvo CE is currently *influencing* the Indian construction equipment market, through selling its high quality and high-tech products a the market, formerly characterised by using manual labour instead of machines. Once the machines were introduced they were low tech and had poor quality. Recently, with Volvo CE and Caterpillar, the market has gained high premium products, that are increasing the technical value of the machines. (Even though Caterpillar is starting-up local production in the country to decrease the cost of the products.) Furthermore, Volvo CE's relationship to the customers and dealerships is *innovative*. Volvo CE is currently bringing in new technical standards on products, at the same time the market has begun pulling for more high-tech products.

THE NETWORK STRATEGY

The Network Strategy created by Professor Jansson, consists of four parts, web strategy, linkage strategy, competitive strategy, and the first-mover advantage. However, it also includes the network mapping, which is important in order to understand how the company and the different institutions are positioned, in regards to one another. Furthermore, is the Network Capability Profile, which shows what type of webs the actor is capable of handling.

NETWORK MAPPING

The mapping of the current strategic network is essential, before designing the web strategy for Volvo CE India. In order to do the network mapping we have used Jansson's three main network dimensions; vertical, horizontal and diagonal.

THE VERTICAL DIMENSION

Volvo CE's first tier customers in India, are the large construction corporations that can afford a high premium product. These customers are operating in infrastructure projects and in mining. Furthermore, the second tier customers is the government, who the first tier customers bid for its infrastructure contracts. When Volvo CE India is selling spare parts, the dealerships would be the first tier customer. They hold the spare parts in storage until sold to the construction companies, which in this case are the second tier customers. Furthermore, the government would then be the third tier customers for Volvo CE, when selling spare parts.

The dependence between Volvo CE and the dealerships is based on a high degree of dependence from the dealerships on Volvo CE. Hence, Volvo CE is the backbone of the relationship, this structure is imperative in India, due to the control that the product companies hold over the dealerships, mainly because many of the dealerships do not have the management skills needed to run a dealership in a way that fulfills the requirements from an international brand. JCB have more independent dealerships than Volvo CE, mainly because these dealerships have been active as dealers for many years, JCB's representatives are still involved in the sales of products. Furthermore, the JCB dealerships create

their own marketing activities, which proves that they are able to run their businesses more independently. The customers on the other hand is not very dependent on a single dealership or company's product. A few years back when JCB had a monopoly in the BHL segment the customers were more dependent on JCB, however today there more actors in the BHL segment, which shows that the dependence of a single company has decreased.

The cooperation between the parties in the relationship is of mutual attributing of benefits to both parties, but the companies are often more interested in cooperation. Conflicts are regularly started by the customers, the conflicts can not be avoided in these relationships since all parties are striving to become profitable.

The BHL customers are often capital weak, which increases the level of conflict for prices and service. Currently, Volvo CE's customers are easier to cope with mainly because they are financially stronger, and can afford to pay a higher price, but these customers are also more complicated when the product is breaking down, because they have paid for the high quality.

The closeness within the triad relationship is very high, the company and dealerships are geographically close to each other, regional offices are located next to dealerships, because the reach of the distribution network is a very important factor of reaching the customers. JCB has the most widely spread distribution network in India, and it consists of about 40 dealerships, with 160 regional offices. Volvo CE has only six dealerships, with 13 regional offices. This shows that JCB's distribution network is superior to that of Volvo CE. Volvo CE can distribute its products on the current structure, they are close to the large construction corporation, that can afford the high premium product. However, the reach of JCB is created for selling the BHL, were it is imperative to be close to the smaller customers, who are a significant part of the market, and these customers are located around the large urban areas, but also in the countryside, which Volvo CE is currently not covering.

The institutional distance when it comes to cultural distance between the company, dealership and customer is marginal. All companies are using Indians to

run the operations in India. Furthermore, the salesmen from the company have operated in the areas earlier in their careers and are familiar with the local customs of the different cultures within India. In addition, there are two languages used for doing business in India; English and Hindi, which are mastered by the significant part of the population. There are regional differences to the languages, but the dealerships are generally from the regions that they cover, which decrease or remove the cultural distance between the dealerships and customers.

The expectations on the relationships differ depending on previous relationships and the experience that the parties have had in these relationships. The JCB customers have long-term relationships and these customers, know that they will get a good product for a reasonable price, and when the product breakdown the service stations is located close and can fix the problems within a reasonable amount of time. Furthermore, the JCB customers are expecting that they always can get spare parts for their products, since the spare parts are available in work shops all over the country, not only at JCB authorised dealers. The expectations on the Volvo CE products is also high, but mainly due to the high premium that is paid for the product. There is a degree of uncertainty about Volvo CE, because of that the company has not been in the market for a long period of time and the intentions of the company is unclear, due to lacking of production facilities. Furthermore, the spare part availability of Volvo CE is not as high as for the JCB, which will make first time purchasers doubtful about buying the product.

The organisational authority shared in the triad relationship is divided unequally. The company has the most control, but this can be perceived control, since many of the customers and dealerships have larger organisations than both JCB and Volvo CE. On the other hand, JCB has a larger organisation than Volvo, and therefore can be considered stronger. However, the government which is one of JCB's customers is considered to be stronger than any of the other actors in the relationship. Furthermore, the small rental businesses are perceived as weak compared to the dealerships and the product company. It is hard to identify the power basis between the different actors since the BHL has a diverse customer base. Hence, in general the company and the dealership has a greater perceived power than the customers.

The Horizontal Dimension

The main competitors of Volvo CE India are JCB, Caterpillar, TATA/Hitachi and L&T. Presently, Volvo CE only has four product lines on the market and competes in a limited number of product segments. Caterpillar and L&T are the fierce competitors for Volvo CE, in the product segment Volvo CE is operating. However, when the BHL is introduced JCB and Caterpillar will become major competitors. The main area of competition is on price, but service, spare part availability, quality, fuel efficiency, and operational cost are also important factors in the market. Furthermore, the demand for technology-advanced features is increasing.

The Diagonal Dimension

The government in India is the most important institution when doing business in India, even though India has entered an era of deregulation; trade barriers, taxation and bureaucracy remain high. However, the situation in the country is improving, the trade barriers, licenses and approvals are decreasing, because the government is trying to attract more FDI and the accession to the WTO has forced the government to decrease the regulations. Hence, the deregulation has decreased the importance of the company to map the national and the local government, compared to what was needed before the liberalisation. But it is still important to have the right contacts for information purposes.

THE WEB STRATEGY

The web-strategy is designed to improve the competitive conditions for Volvo CE on the Indian market. The most important external relationships for Volvo CE is the linkage created with its dealerships and its customers. Even though the products are considered very expensive, Volvo CE has a small number of customers and the retention among these customers is high. Volvo CE has gained a good understanding of the needs of the customers, due to being part of the sales process. Thus, having this knowledge Volvo CE can better utilise its resources and capabilities to satisfy customers in order to improve the relationship. Furthermore, the communication between Volvo CE and the dealerships, and among the

dealerships, have to be maintained at a high level in order to take advantages of each others knowledge, to reach higher satisfaction rates form customers.

It is also important to include the government in the web-strategy, even if the government is a third tier customer. However, when the BHL is introduced the government is a potential customer, and the government is presently the single largest customer in that business segment.

THE LINKAGE STRATEGY

Volvo CE India can use the linkage strategy to build long-term relationships mutual beneficial for dealers and customers. The primary linkage between the parties is the product linkage. We have divided the product linkage in two parts the products and the spare part. In the product linkage the dealerships is interacting in the sales process, however the actual delivery of the product only include Volvo CE and the customers. The purpose of this is to decrease the price on the product through avoiding the sales tax for the dealerships. Furthermore, the spare parts are sold to the dealerships and then sold to the customers.

The financial linkage is a reverse linkage it start with the customers paying for the products to Volvo CE and a profit margin is given to the dealerships. On spare parts Volvo CE is paid once the parts are delivered to the dealerships, and the dealerships receive payments from the customers when the parts are sold.

The information linkage existing in the relationship, includes both technical and economical information to all parties in the negotiation process for products. The customers ask for certain products and Volvo CE or the dealership, share its technical knowledge and the economical information includes both prices and the bargaining procedure for the product. Furthermore, organisational information is shared between the dealerships and Volvo CE, consisting of strategies, values and norms, sales targets, and any additional information that the dealerships could benefit from knowing.

The know-how linkage is shared by all parties in the relationship. It includes the training offered to both customers as well as dealerships in order to improve their

knowledge about the products and how to operate them. Furthermore, Volvo CE's know-how is shared with the dealerships, since both parties are involved in the sales process. The customers also take part of the know-how when by using the products.

Linkage Strategy Analysis

Below we have compared Volvo CE's exchanges with the exchanges of JCB, the models for these exchanges can be found in Appendix 2.

The product exchange between Volvo CE and the dealership and the customers can be divided in two parts, the exchange of products and the exchange of spare parts. As be explained earlier in the analysis, Volvo CE sells products directly to the customers, due to taxation reasons. However, through this selling procedure the delivery time on products has increased, the delivery time today is between four days to three weeks. Another reason for this type of sales is that the dealerships are financially weak and cannot afford to stock products, or unwilling to do so. The selling of spare parts is however, done through the dealerships, who hold storage of spare parts. This decrease the delivery time on spare part and furthermore, the availability of spare parts is increased.

The product exchange for JCB looks a bit different since their dealerships hold storage for products, which is an essential requirement when competing in the BHL segment. These products are then sold to the customers. This decreases the delivery time on products, which however can vary, since products are ordered when sold, and the delivery time on products can be up to two weeks. The spare parts are sold in the same fashion as the products, first to the dealerships then to the customers, however JCB has a policy to hold a certain amount of spare parts so the delivery time of spare parts is decreased and is nearly non existent for the customer, since spare parts also can be found in workshops that are not authorised dealers.

The information exchange between Volvo CE and dealership consists of three types of information, organisational, technical and economical. The organisational information consists of strategies, mainly sales, marketing and growth. Volvo CE

also shares information with the dealerships, during the yearly meeting. Furthermore, prediction of sales and overall sales targets are included in the organisational information shared with the dealerships. Additionally, Volvo CE shares technical and economical information with the dealerships, in this information price, technical specifications on product and spare part prices are included. Volvo CE, dealerships and the customers all share economic information with each other, when bargaining for product prices. The dealerships share technical and economical information with the customers, this includes as mentioned above the prices on products and spare parts also the technical specification, but also problems that occurs during the services and how often service is done on products.

The information exchange between JCB and dealership include the same types of information as for Volvo CE, however in the organisational information, JCB does not include the predicted sales and sales targets for the company, but JCB set individual sales targets for the dealerships. Furthermore, the dealerships share the same information as Volvo's dealerships, additionally the JCB dealerships are also working actively to transfer feedback from customers to the main office. This process is not well developed by Volvo CE. Furthermore, when dealing with the large customers JCB is in general doing the information transfer directly to the customer, excluding the dealerships in that process.

The financial exchange can be viewed as the billing process for the product exchange, neither Volvo CE or JCB offer any finance to customers. The financial exchange for Volvo CE is the payment for the products sold to the customers. Then Volvo CE pays the dealerships a profit margin on 1-2% for the sold products. The dealerships also pay Volvo CE for the spare parts that are held in storage. Then the dealerships get paid for the spare part when sold to the customers.

The financial exchange for JCB is similar to Volvo CE's, the exceptions is that the dealerships receives the payment from the customer and not JCB directly. Hence, the dealerships pay JCB for the products, because of stocking it themselves. Furthermore, JCB supports its dealerships with their marketing activities. The

financial exchange for spare parts is the same as for Volvo CE, the dealer pay JCB for the spare parts, and hold them in storage until sold to the customers, whom pay for the spare parts to the dealerships.

The social exchange is important for building up the relationships. JCB has a long-term relationship with its dealerships. This relationship has been built up over a long period of time and the uncertainty between the actors is minimum. These actors have also a high degree of experience in their cooperation. Even though, JCB is an international company the relationship between the actors is stable, and the influence of the British country culture is decline, since the Indian company is run by local labour. Furthermore, JCB's relationship towards its customer is in all the stages in the buyer-seller relationship, since they have a high degree of retention customers as well as many new customers.

Volvo CE has a long-term relationship with one of its dealerships Alpha Technical Services, which have been a dealer for Volvo CE since it started it operations in India in 1998. Volvo CE is also in the development stage and the early stage with many of its dealerships since the relationships with these dealerships is newly established. Volvo CE is engaged in a pre-relationship with the six dealerships that they want to include in the organisation by December 2003. The relationship towards the customers is developing and Volvo CE has a high degree of retention customers. However, they are also in the pre-relationships stage in many of its relationships since they are trying to identify new customers to use its products. Furthermore, Volvo CE is planning to introduce the BHL, which will bring more pre-relationships interactions into the organisation. Volvo CE is an international company in the Indian market but has only partly influenced the Swedish country culture on the dealerships and customers, mainly due to that the management are native Indians.

The relationship between Volvo CE and the dealership has to some degree become institutionalised, in the process of ordering spare parts. The dealerships have been ordering spare part over a period of time and the contracts are signed, there are no negotiations over prices it is currently done on routine, and for many dealerships numerous purchases have been made.

The ordering of products and spare parts between JCB and its dealerships is also institutionalised since both parties have been over the process many times and its is done more or less on routine currently. Furthermore, the retention customers, who purchase 2-3 BHL per year, have also become institutionalised between the dealerships and the customer. However, the customers are still bargaining for the prices at every purchase.

Some adaptations between Volvo CE and its dealerships have also occurred, Volvo CE have implemented a shared computerised ordering system for spare parts, to improve the availability and the efficiency of ordering spare parts. However, there are no adaptations done with the customers. JCB has not implemented a computerised ordering system, however they are currently producing such a system, which will improve the availability of the JCB products and spare parts at the dealerships.

THE COMPETITIVE STRATEGY

The core of the competitive strategy deals with market related issues such as price, quality service and financial matters. Notable is that the competitive strategy part is in connection to the web strategy and linkage strategy. The following description of Volvo CE's competitive strategy is comprised as some of the information has been discussed in previous sections of this thesis.

In the Indian construction equipment industry price is the most important factor to evaluate before purchasing a product and the India average customer is highly price sensitive. This is mainly due to the alternative of using manual labour is very cheap and that the market has not yet fully realised the benefits of using machines instead of manual labour. Furthermore, many of customers are capital weak, therefore they cannot afford to put more capital then needed to do a specific job, and extra features are not paid for.

The after-sales service is a very important feature of the product offering, which contains both the actual maintenance and repair of the vehicles as the sales of spare parts. Advantages that actors in the market can gain over competitors are

dependent on a company's ability of providing service fast and delivery of spare parts fast and smoothly. Volvo CE aims at providing the best after-sales service in the market. Volvo CE has 14 service stations covering India, spare part are stored at these sites and in the dealerships. However, JCB has more than 120 service stations and the other competitors in the market also have more service stations than Volvo CE. Furthermore, the price of the competitors and substitute spare parts is relatively low, which have and will continue to force the company to decrease the price of the spare parts.

Volvo CE offers a high quality product in the Indian market, however the price of the product and spare parts is to high for the average BHL customer. Furthermore, Volvo CE is a new actor on the market and has not yet been able to fully implement the Volvo concept of environment, quality and safety. Furthermore, safety is not an important issue for the customers, since the cost for training a new operator is likely to be lower than the cost for extra features. Additionally, Volvo CE has not adapted the products to the Indian conditions, a 20-tonne product in Europe is used as a 25-tonne machine in India.

The delivery time on the products is crucial for the sales in the Indian market. However, Volvo CE's customer segment is aware that there will be some delivery time, which varies between four days to three weeks depending if the product is in stock. If introducing the BHL the delivery time needs to be improved, since customers expects to have the products delivered when purchased. It is a necessity for Volvo CE to be able to offer the same benefits as its closest competitors, since a potential Volvo BHL will be priced relatively high even if establishing local manufacturing.

FIRST MOVER ADVANTAGE

According to Jansson, a crucial part of the network strategy is to achieve a first-mover advantage. The first mover advantage is achieved by finding the correct mix of linkages to institutional actors. The linkages are based on the same elements as in Jansson's Linkage Strategy.

The management team for Volvo CE and a few of the dealerships have long experience in the Indian construction equipment market, since most of them have worked for other actors in the industry, this has established a large personal network between the company, dealerships and competitors, which is valid for all actors in the industry.

Volvo CE has a first mover advantage in the market, due to being the only company that has established a ordering system for spare parts, between the dealerships and the warehouses. This has been done to decrease the delivery time and improve the availability of spare parts, additionally, this has also improved the response time on service. Despite this it is still JCB that hold the first-mover advantage and the competitive advantage, mainly due to their service network, and relatively low price.

Furthermore, all competitors have an advantage over Volvo CE India, due to that all have established local production, either by themselves or through joint ventures. The local manufacturing makes it possible for these competitors to compete on price, which is very important in the Indian market if to sell large volumes of products. Volvo CE on the other hand is competing in niche segments and on specific products, which obviously decreases the amount of products that Volvo CE potentially could sell.

NETWORK CAPABILITY PROFILES

The ability of Volvo CE India to manage the various types of webs and linkages described above depends on how suitable the resources and capabilities are within their own organisation. Therefore, in order to create and implement the appropriate network strategy in response to the market requirements in India, Volvo CE's *network capabilities profiles* need to be examined.

When classifying the capabilities of Volvo CE India, we found that the capabilities of the company could be categorised as a distribution specialist.

DISTRIBUTION SPECIALIST

Volvo CE can be classified as a distribution specialist. Despite the fact that Volvo CE has a distribution network in India, they themselves are specialised in distributing the product to the customer from the production facilities worldwide. Volvo CE's primary task in India is currently to import, sell, distribute and offer service.

Volvo CE possess the capabilities of the distribution specialist, they manage the inventory of products and through the dealership network the service is executed. The company is using its internal computerised ordering system for spare parts to improve delivery time and availability, which is critical for a well functioning distribution network.

Additionally, Volvo CE is intending to improve its distribution network with introducing six dealerships into the organisation, however still focusing its resources and capabilities on selling and distributing its products.

COMPETITIVE ADVANTAGE

According to Grant, "for a resource or capability to establish a competitive advantage, two conditions must be present. First, a resource or capability must be *scarce.* Second, the resource or capability must be *relevant*." There are two ways that competitive advantage can emerge, it is either through external sources of change and internal sources of change.

At present Volvo CE does not hold any competitive advantage in the Indian market. The products Volvo CE sell are too expensive, due to non-existing local manufacturing. Furthermore, the dealerships do not stock products, which makes delivery times long. Additionally, spare parts and the cost of service are too high and the geographical coverage is limited, compared to competitors. The visions of the dealerships and Volvo CE are in some cases conflicting, making it difficult to create any competitive advantage for Volvo CE.

Volvo CE's organisation has too few employees in sales and customer service support, to cover such a vast market as India. In addition, many of the dealerships are capital weak and unable to expand their organisations without financial support from either financial institutions or Volvo CE. The unevenly split of the know-how and competence in the distribution network which could affect the efficiency of the company.

Chapter 6

CONCLUSIONS

This part integrates the findings in our thesis in order to answer the research problem. This section includes the conclusions drawn from the analysis of the obtained material from our field trip to India during three weeks in October 2002. It consists of conclusions drawn from the analysis of the macro-and microenvironment influence on the relationships between the company and its distribution network.

The Indian market has undergone substantial changes during the last 10 years. The market has changed from being highly protected from foreign MNC's, to become a semi-protected market in a stage of transition to full market economy.

Liberalisation and privatisation reforms have started and the entry into the WTO functions as a guarantee for further market reforms, in order to establish a full market economy. The problem in the reform process is the time perspective. The pace of change is slow, because of differences in opinions among the large number of parties included in the party coalition, in power of India.

The low degree of FDI in India is to some extent connected to the weak legal system. The legal framework is vague and contradictory and the enforcement of existing legislation is modest. The global standards set by the WTO are not fulfilled. In business relationships it is difficult to rely solely on the legal framework, including laws and contracts as a basis for long term relationship and relationships are therefore often built on personal relationships and trust instead of formal contracts.

The regulations related to international trade has been liberalised but imports duties on products remains high. This has forced all actors to establish local manufacturing or assembly facilities. A company that does not establish local manufacturing is not considered a serious threat since this company will not be able to competes on price in the Indian market. The weak protection in areas such as proprietary rights has direct implications for the sales of original spare parts and the Indian market is full with low price substitutes that have large market shares of the aftermarket for all brands in the industry.

Furthermore, the domestic firms have been protected from international competition and it is not until recently these companies have been experiencing the effects of a liberalised market but it will be a complicated and complex task for these companies to restructure its businesses in order to be competitive in a free market economy.

The BHL market has experienced significant growth but is predicted to reach a mature stage shortly. The demand for BHL is highly dependent on infrastructure projects and the government has undertaken large investments, especially in the larger city areas and the state of Andhra Pradesh. Furthermore, the rental business is a business segment considered highly important for the future, mainly because rental prices have declined.

The structure of the competitive situation in the BHL segment is concentrated around four actors, and the prime focus for customers is the price. JCB is the dominant actor in this market because of its superior distribution network and relatively low price level on products. The market demands are changing from primary price focus to include factors such as technological features, service packages, capacity and quality. Since Caterpillar and JCB are the major distributors of these features, they will be the main competitors in this segment in the future. Furthermore, TATA/Hitachi will under these new conditions in a free market economy be facing major problems and most probably only play a minor role in this segment. L&T is a formerly protected domestic company, and the role of this company in the future is questionable. The joint venture with Case is highly volatile due to that another company recently has acquired Case and the future for Case is unclear. The joint venture with Komatsu, the world's second largest player in this market, is unlikely to continue due to the changes described above. Furthermore, Caterpillar, Komatsu's largest competitor has started to make large investments and focuses on the Indian market, which increases the possibility that Komatsu will follow due to the logistical advantages Komatsu have by being situated in Japan. If Komatsu decides to focus in the Indian market, the future role of L&T as a distributor for Komatsu is uncertain, mainly depending on the future plans for the joint venture with Case, which will probably not be accepted by Komatsu.

It is quite clear that the coverage of a company's distribution network is a key factor in the BHL segment, the demands on product features and service is slowly increasing. The customer requests the same service as competitors offer and JCB has already set the standard by having dealerships all over India. Furthermore, requirements on the individual dealerships to stock products and spare parts are

part of the strategy to satisfy customer demands. It is of importance for all actors that their dealerships establish separate divisions for the BHL segment due to the size and potential of this market.

The typical Indian dealership differs however significantly from dealerships in the Western part of the world. The dealerships prime function in India is to function as an intermediary between the buyer and the seller. As a result, of this, the company should have representatives geographically close to its dealerships, since it offers the company the ability to function as a control mechanism for the company and supervise that the high requirements on the brand is upheld.

It is vital that the company assist the distribution network, in its relationship to the customer. Representatives from the company and the dealership should participate actively in the sales and after sales process in order to establish trust by showing commitment to the relationship. Trust is a key factor in the relationship to new and old customers and if achieved the retention rate increases. Additionally, it is important that the representative from the company is the same individual throughout the interaction, if the company aims to build long-term relationships with the customers.

To sum up, Volvo CE has experienced substantial growth since establishing operations in India but is still a minor actor in the industry. The main problems for Volvo CE are the lack of local manufacturing, uneven level of competence, the limited number of Volvo representatives and the coverage of the market. The relationships to dealerships and customers function well and are aligned with those of competitors except minor differences in requirements and demands on the dealerships. The level of competence differs significantly in the organisation (company and dealerships), which result in an unevenly divide of competitiveness of the Volvo organisation throughout India.

The demand for the technology-advanced BHL is predicted to increase its market share of the total BHL market, but a success for a potential launch by Volvo CE in this product segment is connected to the fact that the conditions above are established. The Volvo CE BHL more than fulfil the technical requirements by

customers, but it is important to point out that the Volvo brand is not valued as high as the Caterpillar brand, and therefore it is essential that the price of a potential Volvo BHL is lower than the price of a Caterpillar BHL. Additionally, a second requirement for Volvo CE would be to establish a distribution network with coverage of India similar to that of Caterpillar. *Cost focus* and *distribution* can be concluded to be key factors for a potential success in the Indian BHL market.

Chapter 5

RECOMMENDATIONS

In this chapter we present our recommendations. These recommendations include actions that we believe to be of high importance for Volvo CE in order to be prepared for a potential BHL launch. Furthermore, these recommendations are based on the conclusions of the analysis in this thesis.

LOCAL PRODUCTION/ASSEMBLING

First and most important is to establish local production or assembling of a potential Volvo BHL in India. Local manufacturing is essential in order to be able to compete in this market due to the fact that all competitors since long already have arranged this and it is imperative that the price of a potential Volvo BHL is priced lower than the Caterpillar BHL since the latter brand is valued higher by customers.

Local production can be achieved at the current production plant in Bangalore, with limited capital investments. The local production could reduce the product price with 50% since Volvo CE would not have to pay the current import duties.

Another alternative is to implement local assembly of the Volvo BHL. This alternative would decrease the total cost structure since duties on assembly kits is lower then the import duty of a finished product, furthermore the price of local assembly is low. These two factors would decrease the final price of the product with approximately 30%.

We believe local production or the second alternative of assembling to be vital in order for Volvo CE to be able to remain as an actor in the Indian market.

Furthermore, establishing local manufacturing or assembly would enable Volvo CE to decrease the price of spare parts. Today the price of original spare parts range between 30-100% more than that of the lowest priced substitute. Local manufacturing or assembling of spare parts would make it possible to price spare parts not more than a maximum of 30% over the price of the substitutes which is an acceptable price level by customers in order to only purchase original parts.

ORGANISATIONAL IMPROVEMENT

IMPROVE COMPETENCE LEVEL

We believe that it is important for Volvo CE to improve the competence of the organisation. Currently, there is an uneven split of competence and knowledge in

the organisation. Certain parts as for example region North is in control of a superior knowledge and competence while other regions lack this, which might result in a discredit of the Volvo brand. We suggest that the knowledge in the organisation is evenly divided throughout the organisation by if possible transferring key employees to these regions in order to build up the brand and supervise that the high standards of the brand is upheld. Additionally, a thorough investigation of the current dealerships should be performed in order to evaluate if all the dealerships can fulfil these demands and if so common frameworks similar to an ISO certification stating work procedures, requirements and standards that has to be fulfilled by the dealerships. It could be relevant to appoint one Volvo CE employee to control that the dealerships follow the framework.

Expand Distribution Network

We find it highly important that Volvo CE in the long run should increase the number of dealerships to a similar level of Caterpillar's distribution network, since they will be the main competitor in the future for Volvo CE. Primary dealerships should be located in regions of interest for the BHL such as the large urban areas and the state of Andhra Pradesh.

Furthermore, it is necessary that Volvo CE increase the number of sales representatives. Before hiring new sales representatives they should be carefully interviewed to make certain that they fulfil the requirements and demands of Volvo CE. We recommend that Volvo CE implement a compulsory sales profile test. Additionally, with the product lines Volvo CE has today they should at least have four additional salesmen to cover the current product population.

Furthermore, it is important that the dealership increases the number of representative offices in order to reach more potential customers. As stated before we believe that some of the dealerships are performing weak, due to lack of market knowledge, attitude, and financial constraints and these relationships should be terminated and replaced by new dealerships.

We recommend that Volvo CE create a framework including requirements on the dealerships. The framework should include requirements on stock, sales and marketing targets for the individual dealership and a guidance policy of how to use the Volvo brand.

Stock Requirements on Products and Spare Parts

Dealerships should stock both spare parts and products, since all the competitors in the BHL segment do so. Keeping a number of products in stock at the dealerships offers the salesman an opportunity to demonstrate the machines on-spot, which could improve sales. These machines can also be used for training of new service engineers for the dealerships.

Sales and Marketing

Furthermore, implementing sales and marketing targets for the individual dealership and the regional office would force them to work more actively together in order to reach quotas. The dealerships and the regional offices that reach their goals should be awarded by using bonuses, while dealerships and regional offices that do not reach their goals should be given a warning and if not improved in a predetermined time perspective the relationship should be terminated and replaced.

The current sales process is unfocused, due to that the sales force sells all products. It is imperative that Volvo CE and the dealerships set up a single division that only focus on the sales of the BHL, which will improve the possibilities for Volvo CE to penetrate the Indian BHL market swiftly, due to the focus needed to reach the small sub-contractors and rental business.

We also recommend Volvo CE to increase the marketing activities in their organisation when marketing new products. Effective marketing campaign will increase the brand awareness among customers, and the BHL customers would be aware of the new product. Examples of increased marketing activities could be funds for individual marketing campaigns attributed to the dealerships from Volvo CE when introducing new products. Furthermore, in the case of a potential BHL

we suggest that Volvo CE offers a low introduction price for a limited period to spin off sales, which will increase the interest of the product.

Volvo Brand

Additionally, it is important to create a guidance system for the use of the Volvo brand name. Dealerships present themselves as working for Volvo CE, which is discrediting, if the dealership does not fulfil the expected standards of the brand name by the customer. Furthermore, it includes the use of the brand on business cards, dealerships signs and other marketing activities that is conducted by the dealership. Since many of the dealers hold many brands it is a conflict of interest.

Further Improvement of Dealership Relationship

Furthermore, additional improvements in the relationships needs to be addressed in order to improve the relationship to easier cope with organisational changes.

In order to increase the incentive for dealerships to implement suggested actions by Volvo CE a range of bonuses should be awarded. A new bonus system should include a bonus system for dealerships that reach their targets as an instrument to further encourage sales. Furthermore, additional bonuses can be implemented in areas such as best growing dealership in terms of profit, best expanding dealership in terms of new representative offices and lastly a bonus awarded to the dealerships that implement rental activities or other prioritised areas from the headquarters.

Further we believe that small actions taken can improve the relationship, such as provide a sign stating that the dealership is an authorised Volvo CE dealership. It would be a small investment, but it would make the dealerships feel a higher commitment to the company. Additionally, smaller problems with for example difficult product failures that cannot be solved on-spot by the service engineer could be solved by the use of digital-cameras. The engineer can send the problem to a specialist at any location in the world and this specialist is able to guide and assist the engineer to solve the problem.

INTRODUCING THE RENTAL BUSINESS

We believe that the best way to introduce the renting concept without inflicting problems in the relationship with dealers is that Volvo CE owns the products while the dealership would rent it out to the customers. In exchange for this Volvo CE would receive a steady stream of capital and only be paying the administration costs to the dealerships. When the product is paid for (with interest), it would be the property of the dealerships and they can choose whether to sell it or continue to rent it out. This would also guarantee that the machines would be taken good care of while Volvo CE is the owner, because the dealerships would be keen on the second-hand value of the product.

USED EQUIPMENT

Due to the price focus in India, it could be beneficial to establish sales of used equipment. Volvo CE can import used equipment from Volvo across the globe and offer to competitive prices in the Indian market. This would be a good way to increase the current fleet of operating machines in India. It would lead to an increased brand awareness which could be used in sales of new equipment.

It is, however, unclear what existing legislation states about import duties with regards to used equipment. Sources have informed us that import duties are the same for used and new equipment, while others claim that the import duties on used equipment only is attributed for products not older than 5 years. We have not been able to find a reliable answer to this question, but if the assumption is correct, that there are no import duties on products over five years, we believe this recommendation to be highly valid.

Chapter 6

SUGGESTIONS FOR FUTURE RESEARCH

In the last chapter of this thesis we discuss areas that are in need of future research connected to our thesis. We did not have the opportunity to investigate these areas of interest. We believe that the suggestions following are mostly of interest for Volvo CE, but also for research at the university.

DISTRIBUTION NETWORK

We believe it can be of interest of investigating the distribution network when the BHL have been introduced to the market. It can than be necessary to investigate how the storage of products and after sales have been conducted to improve the conditions of selling the BHL in the market.

When the BHL has entered the market it can be important to do research on how many products are sold, on what basis the BHL is sold and how this can be improved in order for Volvo CE to sell more BHL in the Indian market.

INTERNAL FINANCING

Since India is in a reform phase another area of interest can be to investigate the opportunities for financing the products internally. For this investigation it is necessary to look deeper into the legal framework for payments and conditions for lending capital to customers and the conditions necessary for a foreign company to penetrate the capital market of India.

Furthermore, it can be of interest to explore the risks involved with financing the product. Additionally, the benefits that financing products can have on the selling procedures of construction equipment in the Indian market compared to the Western world. This research could show the differences between the market conditions in the developed nations and the emerging markets.

SUPPLIERS IN INDIA

We believe that it can be of interest for Volvo CE to investigate the possibilities of producing the BHL in India as well as other products. Therefore it should be of an advantage to look further into the supplier side of the relationship to the company.

Here investigation could be done on the bargaining power of suppliers, the availability of suppliers for construction equipment parts, the knowledge transfer and the risks involved with producing product.

These are all relevant subject to investigate, since they directly affect the outcome of producing a product in India. The supplier power can determine how much the price can be pressed and how much control Volvo CE can have over the suppliers operations on the Indian market. The availibility of suppliers is related to the power of suppliers, since the competitors produce on this market the availability of suppliers is an important aspect in the decision for local manufactruing. The knowledge transfer and the risks involved go together, since the know-how of Volvo CE would be transferred to the suppliers, and the proprietary legislation in India is not like that of the Western world, and therefore can constitute large risks for the product company.

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APPENDIX

APPENDIX 1:

This appendix consists of additional information to Jansson's Basic Institutional Model. Below we will present the political system, religion, educational system, family/culture, business mores, professional and interest associations, and the labour force and unions.

POLITICAL SYSTEM

India is the largest democracy in the world, stated on voters and political parties. In 1996, 600 million voters participated in the national elections. Elections are held at different levels. The two major election levels are at national level and state level. National level establishes the national government and the state level establish the state government. Elections are also held for city-, town- and village councils.

POLITICAL PARTIES IN INDIA

Political parties are classified as National or State parties. Political parties that are recognised in four or more states, is considered to be a National Party. India has a range of political parties; new parties are formed frequently, and merged with the large parties. Political alliances of convenience, between small parties and one of the two major ones (BJP and Congress) are common. The list below contains the major parties in India:

Table 8 - The main Political Parties of India

Table 9 - Bharatiya Janta Party	Lead the ruling coalition of parties
Indian National Congress	Main opposition to ruling coalition
Communist Party of India	Strong in West Bengal and Kerala States
Samajwadi Party	Strong in Maharashtra State and Delhi
Al-India Anna DMK	Strong in Tamil Nadu State
Akali Dal	Strong in Punjab State

PRESIDENT AND PARLIAMENT

The head of the country is the President, currently Dr Avul Pakir Jainulabdeen Abdul Kalam. Even though, the real administrator of the country, is the Prime Minister. Currently the Prime Minister is Mr Vajapee.

The Indian Parliament consists of two houses. The Lower House called the Lok Sabha and the Upper House called the Rajya Sabha. Unlike the Lower House, the Upper House cannot be dissolved, but one third of its members resign every two years.

Most of the parliamentary activities, passing laws, no-trust votes and budget issues take place in the Lower House. The Upper House together with the Lower House amends the Constitution. These two Houses together with the state legislatures also elect the President. The states have their own legislatures. Some states have two Houses and some only one House. The state elections are held every five years. In these elections members for the Lower House are elected.

Head of a state is called Chief Minister, who is member of the Lower House. According to the Constitution the figurehead of the state is the Governor, who is appointed by the President on advice of the national government. In general the governor has more legislative rights at state level than the President has at national level. The governor can call on early elections in the state or fire the government if he thinks that the government has failed or is unstable.

RELIGION

In India most religions and cultures exists, but the influence is much less in urban areas than in rural areas. Hinduism is the dominant religion (80%) of the population, followed by Islam (14%), Christianity (2.4%), Sikhism (2%), Buddhism (0,7%), Jainism (0,5%) and others (0,4%). The wide range of religious beliefs are able to coexist in relative harmony, but clashes occur and have occurred in recent years, the latest examples are the clashes in Gujarat and Jammu Kashmir.

The central state government has since India's independence, officially separated from any sort of religion, but on a regional level where one form of belief dominates, the distinction between religion and administration bodies have become rather vague.

EDUCATIONAL SYSTEM

In India, primary and middle school education is compulsory and children starts pre-school at three years of age. Children attending school varies for different regions but as an average only 50% of all children between the ages of six and fourteen actually attend school. The literacy rate is only 52% in India. About 2 million students are enrolled in graduate or postgraduate studies at the 237 Universities in India. English is the business language and is widely spoken, which is mainly due to the wide range of languages spoken in India.

FAMILY / CULTURE

Traditionally, the family plays a vital role in the Indian society and people normally lives in large families. The idea of collectivism influences most parts of the Indian society and is believed to heritage from the close relationship within the family. The family and society is characterized by hierarchy and respect. Men are ranked higher than women, elderly are ranked higher than young people and the caste system is an additional factor that splits people into different looked positions in the society and family. Differences between men and women are huge due to their different roles in society.

During the last decades the traditional family structure have started to change mostly due to the development brought on by industrialisation and urbanisation. The large family structure is slowly disappearing, due to that people have separate jobs outside the family in large cities and no longer live in the family households in the rural areas. There is a clear distinction between family and work and values and norms that exist in the family are put aside at work.

The Indian society is to a large extent based on the caste system, which highly influence peoples position in society from the day they are born. The different

castes within the caste system are classified into four “Varnas” or classes, with “different divisions”. The highest is “varna”, followed by “Kshatriyas”, “Vaisyas” and lastly “Sudras”. The highest caste “Varnas” is dominated by priest and scholars while “Sudras” are common workers.

The hierarchy of the caste system have slowly started to loosen up mainly due to urbanisation, since it is impossible to know who belong to which caste within larger cities, and the respect and hierarchy demanded by this system have lost most of its influence in urban areas, while it still exist to some extent in the countryside. Additionally, people from different castes have started to enter areas outside their caste, for example priests are going into business, professors are starting up businesses. Indian culture is very heterogeneous and it is complicated to give an accurate description that could be applied to all regions and people of India, mainly due to the large variety of religions, ethnic and linguistic groups existing in the country. The business culture can be characterized by that decisions are made slowly due to that Indians want time to discuss every aspect of a deal. Impatience is viewed as rude, and attempts to get things done faster will be resisted and resented. Furthermore, decisions are made at the top of the hierarchy. Indians value punctuality in others, but will often be delayed themselves Business clothing is casual and standard for men is pants and short-sleeved shirts.

Volvo CE is currently *complying* with the norms and values, which exist across the geographic and ethnic boundaries in India. Volvo CE India has adapted to the country culture through using native Indians from different cultural backgrounds throughout the organisation. Furthermore, Volvo CE has *imitated* the institutional model of Indian constructions firms, locating the office of the product company close to the dealerships.

BUSINESS MORES

The business life in India is characterized by hierarchy and the respect for seniority. Seniority gives respects in group discussions and younger colleagues may choose not to oppose the senior person even if not agreeing upon the issue under discussion. This form of respect is of more importance in state owned companies than in private companies.

The managerial style is hierarchically structured and the managers supervise the work of their subordinates carefully. In business with Indians, it is proper to try to address the top management since that is where the actual decisions always are made. Furthermore when in contact with professionals, it is important to use the proper titles and act with respect. Creating and manage a personal relationship and build the relationship on trust and friendship, are important and widely used as an alternative to contracts in India.

Corruption and bribery is still a part of the Indian business environment, even if international pressure in recent years have made it less common than before. A relationship that still to a large extent exist in India is the relationship between politics and business. It is a mutual relationship where both politicians (high in the hierarchy) and business people do each other favours, this is referred to as the "Iron Triangle".

PROFESSIONAL AND INTEREST ASSOCIATIONS

India became a member in WTO in 1995. The commitments made by India to the GATT and WTO agreements on Quantitative Restrictions (QRs), on Tariffs, and on Trade-Related Investment Measures (TRIMs) has had some implications for the Indian compact construction industry. A possible threat for the Indian compact construction equipment industry, is the shift in technology between developed and developing economies. There is a lack of appropriate mechanisms to transfer the technology standards to developing countries at affordable and competitive prices. Furthermore, the Government of India permits imports of construction equipment and the duty on construction equipment ranges from 35 to 50 percent, but in accordance with WTO regulations duty rates have decreased and are to decrease further. Recently, the Government also deregulated and its requirements for foreigners intended to establish and operate a business in the country. Repatriation of profits is now permitted and the use of a foreign brand name is allowed.

Organisations such as the World Bank and the Asian Development Bank (ADB) have financed infrastructure projects proposed by the Indian Government in the past. India joined the World Bank in 1944 and is one of its oldest members. As of

June 2002, India is the World Bank's largest single borrower, with cumulative lending of more than $58 billion in combined market-based loans from the International Bank for Reconstruction and Development (IBRD) and development credits from the International Development Association (IDA).

Another, influential organisation is FICCI. This organization was established in 1927. Today, the organisation include more than 500 Chambers of Commerce, Trade Associations and Industry associations. The FICCI include over 2,500,000 business units, which employ approximately 20 million people FICCI is constantly analysing the impact of the globalisation, changes in business practice, academia, and policy-making on industries in India.

The IDFC (The Infrastructure Development Finance Corporation) established in 1997 is a specialised financial institution, established in order to offer funding packages for infrastructure projects that other institutions not are able to provide for. IDFC main shareholder are the Asian Development Bank and the International Finance Corporation. IDFC is mainly concentrated in the private sector projects.

LABOUR FORCE AND UNIONS

India's labour force range from large numbers of illiterate workers not used to high tech products, to a large pool of highly educated people, specialists within their field. A substantial number of skilled people have left India to work abroad and, the country has suffered a brain drain since the independence. The cost of labour is extremely low in India compared to other countries, even if the salaries for middle top management and engineers have risen due of the emergence of MNC’s in India

The number of unions have grown after the independence, but most unions are small, and in the early 1990s total membership was about 10 million. Many unions are affiliated with regional or national federations, the most important are the Indian National Trade Union Congress, the Centre of Indian Trade Unions and the Indian Workers' Association. Labour legislation is moving in the direction favourable for large MNC.

APPENDIX 2:

In this appendix we have presented the short-terms exchanges between Volvo CE, dealership and customer. As well as the exchanges for JCB, dealerships and customer. Furthermore, these exchanges are presented with the arrows used in the models, and cover the product, information and financial exchanges taking place in the market.

Figure 14 - Volvo CE's Product Exchange

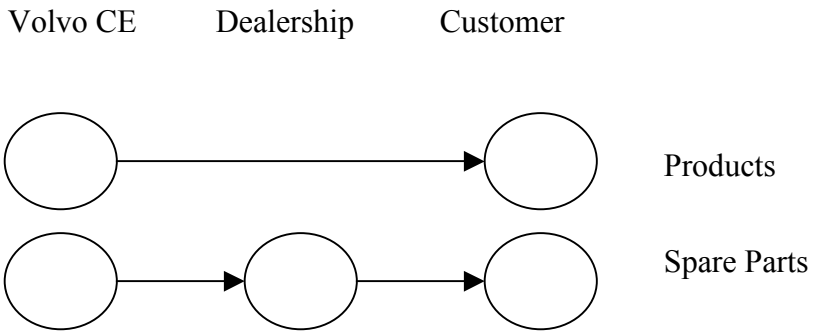

Figure 15 - JCB's Product Exchange

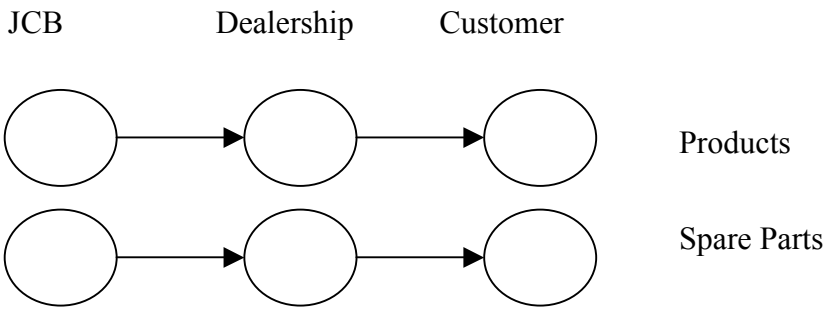

Figure 16 - Volvo CE's Information Exchange

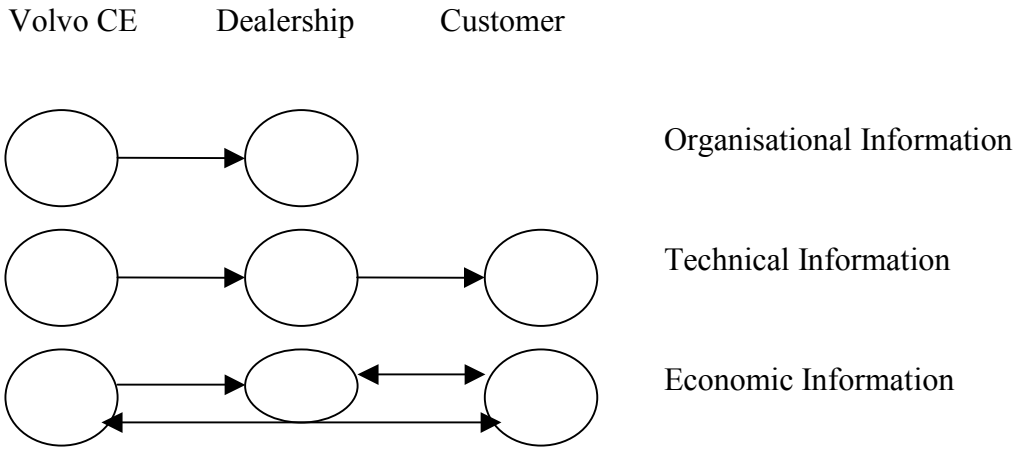

Figure 17 - JCB's Information Exchange

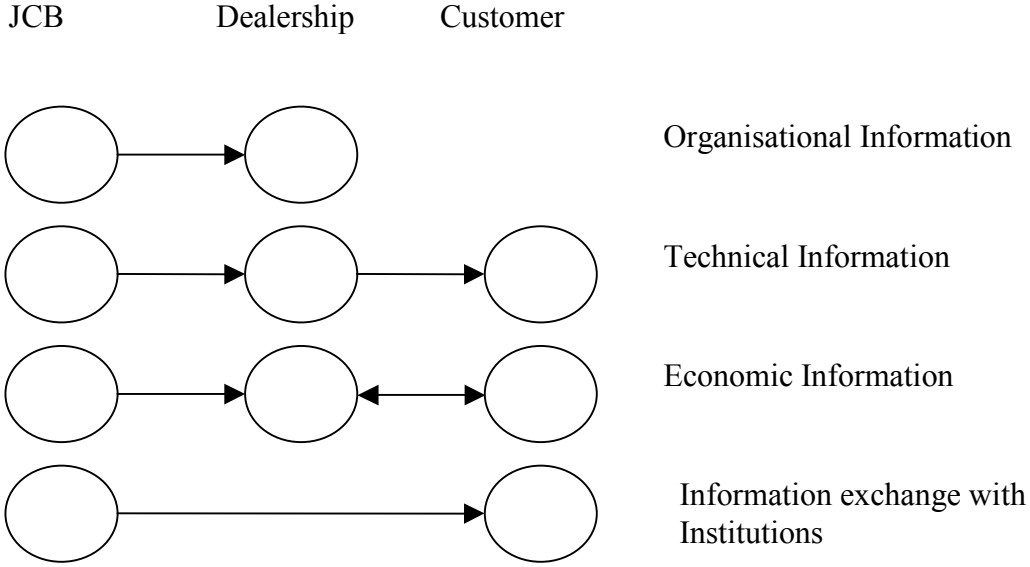

Figure 18 - Volvo CE's Financial Exchange

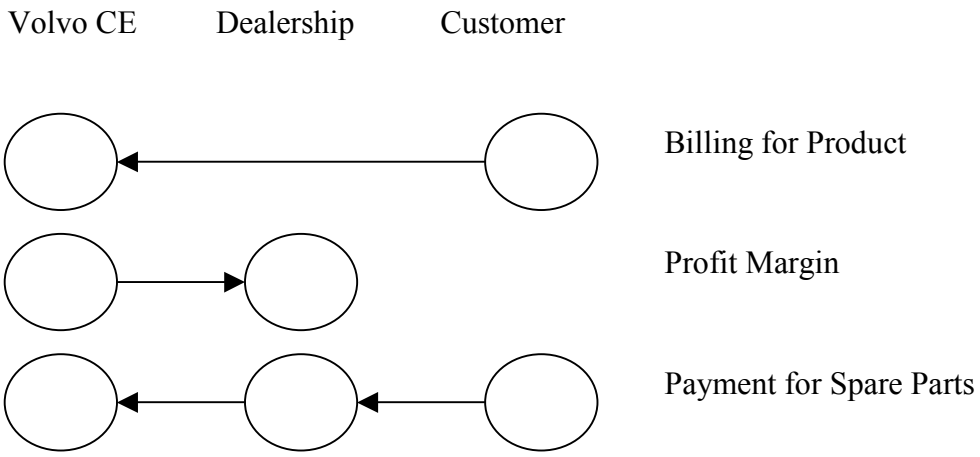

Figure 19 - JCB's Financial Exchange