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Candidate session number

Candidate name

School number

School name

Examination session (May or November)

May

Year

2012

Diploma Programme subject in which this extended essay is registered: Business and Management
(For an extended essay in the area of languages, state the language and whether it is group 1 or group 2.)

Title of the extended essay: How do the exit of Hero MotoCorp Ltd. from the joint venture Hero Honda and Hero MotoCorp's response affect Hero MotoCorp's performance?

Candidate's declaration

This declaration must be signed by the candidate; otherwise a grade may not be issued.

The extended essay I am submitting is my own work (apart from guidance allowed by the International Baccalaureate).

I have acknowledged each use of the words, graphics or ideas of another person, whether written, oral or visual.

I am aware that the word limit for all extended essays is 4000 words and that examiners are not required to read beyond this limit.

This is the final version of my extended essay.

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Date: 21/2/2012

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The supervisor must complete this report, sign the declaration and then give the final version of the extended essay, with this cover attached, to the Diploma Programme coordinator.

Name of supervisor (CAPITAL letters) _____

Please comment, as appropriate, on the candidate's performance, the context in which the candidate undertook the research for the extended essay, any difficulties encountered and how these were overcome (see page 13 of the extended essay guide). The concluding interview (viva voce) may provide useful information. These comments can help the examiner award a level for criterion K (holistic judgment). Do not comment on any adverse personal circumstances that may have affected the candidate. If the amount of time spent with the candidate was zero, you must explain this, in particular how it was then possible to authenticate the essay as the candidate's own work. You may attach an additional sheet if there is insufficient space here.

[redacted] had originally planned to do the EE on an internet (web) based marketing companies. He had to give it up since the originally planned respondents were not available. He took the challenge in his stride and came up with the current project / subject. His research is predominantly secondary survey study based, and analysis of the data from published sources. He has done a reasonably good analysis. He shows more conceptual clarity than is evident in the EE. He has good familiarity with the subject at hand and applies reasoned arguments and reasonable consistency of logic. He follows the form quite faithfully, though I would have expected more. Regi shows good / excellent intellectual initiative and uses the libamas effectively. He carries away from the EE a great appreciation of IBM concepts and practices.

This declaration must be signed by the supervisor; otherwise a grade may not be issued.

I have read the final version of the extended essay that will be submitted to the examiner.

To the best of my knowledge, the extended essay is the authentic work of the candidate.

I spent hours with the candidate discussing the progress of the extended essay.

Supervisor's signature _____

Date: 21st Feb 2012

Assessment form (for examiner use only)

Candidate session number

Achievement level

Criteria	Examiner 1	maximum	Examiner 2	maximum	Examiner 3
<i>Describe - rather past!</i> A research question	2 ✓	2	1 ✓	2	
B introduction	2 ✓	2	2 ✓	2	
C investigation	3 ✓	4	3 ✓	4	
D knowledge and understanding <i>lots some academic sources</i>	3 ✓	4	3 ✓	4	
E reasoned argument	3 ✓	4	3 ✓	4	
F analysis and evaluation <i>not really strong knowledge not sound approach</i>	3 ✓	4	2 ✓	4	
G use of subject language	3 ✓	4	3 ✓	4	
H conclusion	1 ✓	2	1 ✓	2	
I formal presentation	3 ✓	4	3 ✓	4	
J abstract	2 ✓	2	<i>not</i> 2 ✓	2	
K holistic judgment	3 ✓	4	3 ✓	4	

Total out of 36

28 ✓

26 ✓

Name of examiner 1: _____
(CAPITAL letters)

Examiner number: _____

Name of examiner 2: _____
(CAPITAL letters)

Examiner number: _____

Name of examiner 3: _____
(CAPITAL letters)

Examiner number: _____

IB Cardiff use only: B: _____ ✓

IB Cardiff use only: A: 99018

Date: 30/04/12

Extended Essay
Business & Management

Past: Future:

How do the exit of Hero MotoCorp Ltd. from the joint venture Hero Honda and Hero MotoCorp's response affect Hero MotoCorp's performance?

Word Count: 3967

Rescript 1

Abstract

The purpose of this essay is to determine how the exit of Hero MotoCorp Ltd. from the joint venture Hero Honda and Hero MotoCorp's response affects Hero MotoCorp's performance.

Hero MotoCorp Ltd. formed after the dissolution of the joint venture Hero Honda. Hero MotoCorp was affected in several ways due to this change. To analyze this, a number of sources were used. Data was taken from annual reports, interviews, websites discussing the change and magazines. The data indicated that Hero MotoCorp experienced two major losses of technology and brand image. The methods by which Hero MotoCorp deals with these losses are also analyzed. Benefits arising from Hero MotoCorp's new ability to expand are also examined, as well as how the business capitalized upon these advantages. Then, early indicators of Hero MotoCorp's future are considered. Their relevance, veracity and implications are identified. It is determined that Hero Honda faces no problems of survival, as it increases its profit and sales turnover. But, it will face a reduction in market share. Hero MotoCorp's situation is then compared to the similar situation of TVS. TVS anticipated the loss of technological support, and acted accordingly, leading to it having an easy transition. On the other hand, TVS did not act as proactively as Hero MotoCorp in advertising. Therefore, it experienced large losses in market share.

Hero MotoCorp's performance in the market will suffer in the short term as it moves through transition. But, the steps that Hero MotoCorp has taken will ensure a more successful future.

Word Count: 252

<u>Heading</u>	<u>Page Number</u>
Cover Page	1
Abstract	2
Essay	4-14
Introduction	4-5
Background	5-6
Methodology	5-6
Analysis	6-14
Technology	6-7
Impact	6
Response	6-7
Brand Image	7-8
Impact	7
Response	7-8
Expansion	9-10
Impact	9
Response	9-10
Early Indicators	10-13
Sales Turnover	10-11
Net Profit	11-12
Market Share	12-13
TVS Suzuki: A Comparison	13-14
Conclusion	14
Bibliography	15-16

How do the exit of Hero MotoCorp Ltd. from the joint venture Hero Honda and Hero MotoCorp's response affect Hero MotoCorp's performance? - In what ways?
NJW? Time limit?

Introduction

This study addresses the changes in performance of Hero MotoCorp Ltd. after it dissolved the joint venture it held with Honda.

"What the caterpillar calls the end, the rest of the world calls a butterfly." — Lao Tzu

Businesses must adapt to change. They can incorporate, amalgamate or grow organically. Each of these techniques, among many others, is aimed at enabling businesses to survive and become more profitable in the long term. Each method comes with its drawbacks and limitations. This essay will explore the difficulties faced by Hero MotoCorp Ltd. as it manages a transition from joint venture into a standalone entity. International joint ventures are common in India. Businesses such as Bharthi Walmart, Mahindra Renault and TVS Suzuki form for several reasons. Joint ventures help foreign businesses avoid protectionist policies in India and utilize an existing business infrastructure in India. Local businesses join joint ventures in the prospect of gaining a competitive advantage. As trade barriers against foreign businesses decrease, and the abilities of local businesses increase, joint ventures become less profitable ventures for both businesses. Transitions out of joint ventures are becoming increasingly common in India and abroad.

In the 2010-11 Annual Report of Hero MotoCorp, the business states, "The successful association of Hero and Honda for 27 years created the world's largest two wheeler manufacturing company. During 2010-11, we decided to part ways and evolve beyond this partnership. This is a happy culmination of a long and fruitful relationship. We now embark on a brand new journey into an exciting future of enormous possibilities."¹

The exit of Hero MotoCorp from the joint venture leads to many changes for the business. This essay will explore these changes, the effectiveness of the efforts taken in addressing them, and indicators of Hero MotoCorp's future. How do the exit of Hero MotoCorp Ltd. from the joint venture Hero Honda and Hero MotoCorp's response affect Hero MotoCorp's performance?

Background

The Indian business, Hero Cycle Company, entered a joint venture with Honda Motor Co. Ltd. twenty nine years ago². Together, under the name Hero Honda Motors Ltd., the businesses manufactured two-wheelers. Within a few years, the joint venture, named Hero Honda, grew to astonishing proportions. It became an enormously successful business, grabbing the lion's share of the market. The business maintained its position as a market leader, with a market share of around 50% for several years.³ In certain segments of the market, such as mopeds, their market share grew to over 80%.⁴ Hero Honda's closest competitor, TVS, only manages a market share of less than 20%.⁵ The success of the business was not only exceptional

¹ Annual Report 2010-2011 < <http://heromotocorp.com/investors/financials>>

² <<http://business.outlookindia.com/printarticle.aspx?269608>>

³ Annual Report 2010-2011 < <http://heromotocorp.com/investors/financials>>

⁴ Annual Report 2010-2011 < <http://heromotocorp.com/investors/financials>>

⁵ <<http://www.business-standard.com/india/news/a-low-cost-break-up/96843/>>

in comparison to its competitors in India, but also to the entire world. It became the world's number one two wheeler manufacturer in terms of volume and remained so for several years.⁶

The two businesses were perfect complements to each other. Honda provided the joint venture with technology and brand image; Hero provided the joint venture with a strong domestic manufacturing unit and an extensive distribution network. But, this successful formula was not without its drawbacks – especially for Hero. Honda demanded large royalties from Hero for each contribution of technology.⁷ In more recent times, as developed technology became more difficult to produce and more valuable to businesses, Honda became less willing to part with their research so easily. In addition, Honda resisted Hero's expansion and entrance into international markets.⁸ Honda had other successful ventures in other countries.⁹ It did not want its own joint venture partner to become a competitor in another country. Honda also provided resistance to Hero for various other business decisions. For example, Hero, which wished to merge other parts of the business to Honda, was refused permission by Honda.¹⁰

Despite the success of the joint venture, Hero decided to leave the joint venture for its own reasons. The business resented Honda's restriction of its growth and activity. Hero Honda Motors Ltd. has now become Hero MotoCorp Ltd. and Honda Motor Co. Ltd.. Honda only loses their royalties and share of profit; Hero loses support in developing technology and its strong brand image. The transition away from the joint venture is still taking place.

How deeply is Hero MotoCorp Ltd. affected by this loss? What efforts has it taken to limit the loss? How effective will these measures be? Ultimately, how will Hero MotoCorp's performance be affected? *what is the R. position?*

Methodology

*Source? =
Context!*

Due to the dissolution of the joint venture, Hero MotoCorp experiences both positive and negative changes. The negative impact comes in terms of a deficit of technology and brand image. It gains through its ability to expand its scale of operations and enter new markets. The study of each change can be divided into two parts.

1. Determining the extent of loss or gain to Hero MotoCorp due to each change.
2. Evaluating the methods by which Hero MotoCorp wishes to mitigate the losses and capitalize upon the gains.

After having discussed these changes, the early market indicators post-change are looked at. Hero MotoCorp's situation is then compared with the similar situation of TVS, another two wheeler manufacturer which broke from the joint venture TVS Suzuki in 2002.

⁶ Annual Report 2010-2011 < <http://heromotocorp.com/investors/financials>>

⁷ <<http://timesofindia.indiatimes.com/business/india-business/Hero-Honda-split-terms-finalized/articleshow/7109297.cms>>

⁸ <<http://www.vccircle.com/500/news/india%E2%80%99s-hero-motocorp-plans-global-expansion>>

⁹ <<http://world.honda.com/index.html>>

¹⁰ <<http://timesofindia.indiatimes.com/business/india-business/Hero-Honda-split-terms-finalized/articleshow/7109297.cms>>

For the purposes of study, a variety of sources has been used.

- Numerical data concerning Hero MotoCorp and TVS has been sourced from annual reports.
- Interviews were conducted with:
 - The owner of an advertising agency for businesses
 - A former manager for Ford
 - Current owners of a Hero Honda motorcycle
 - Twelve people looking to buy a motorcycle within the next 5 months.
- Various business magazines and websites.

not really appropriate for study
9/11 that got R. Gmshin

Analysis

Technology

Impact

The loss of technology will affect Hero MotoCorp significantly. They have depended entirely on Honda for their technological requirements.¹¹ They did not have any existing structure in place that would aid in product development. Hero MotoCorp does not have any team designated for developing technology for its products. The business must create a technology development team and secure the buildings and equipment that the team requires. This requirement is immediate. Without a team for product development, Hero MotoCorp will be unable to function. Unfortunately, gathering a team of competent researchers will be difficult in a short span of time. The short time span restricts the amount of time that can be spent in training them and appraising their performances. If the business hires incompetent scientists, the business will be left with inferior products.

why?

Adding to the stress of having to hire workers is the fast approaching deadline by, Bharat IV - regulations that prescribe environmental standards to which new vehicles must adhere in 2015.¹² Bharat IV provides more stringent standards than what have been required till now, and require the latest technology in meeting them. Being unable to source technology from Honda to meet these requirements, Hero MotoCorp must create new technology on its own or enter an agreement with another business to buy technology.

Response

To counter the effects of the loss in technical support, Hero MotoCorp has settled at an agreement with Honda. Until 2014, Honda will remain to cooperate with Hero MotoCorp and provide technical support, as per a previous contract.¹³ The contract will not be rescinded. This provides Hero MotoCorp with many benefits. They can depend on a reliable source of technology for a while. Hero MotoCorp has decided to develop technology on its own, and this agreement provides Hero MotoCorp with the ability to spend more time on the hiring process. The business can select the best of the available candidates. The newly hired members can be adequately trained. The quality of the designs the business produces through the new team can be assured. Hero MotoCorp can also spend more time on creating appropriate facilities for the new team. If Hero MotoCorp manages to hire an able team, it will be able to sustain itself after the

ok but a description only of what has been done.

¹¹ Interview. (Sriram, Ebi)

¹² <<http://www.bsmotoring.com/news/emission-norms-triggered-honda-exit/2940/1>>

¹³ <<http://business.outlookindia.com/printarticle.aspx?269608>>

complete exit of Honda. Although they cannot rely on Honda for technology at that time, meeting the Bharat IV requirements in 2015 will become considerably easier.

This does come with several drawbacks, however. Honda demands higher royalties, amounting to approximately 24 billion rupees over three to four years, for the technology that they will give Hero MotoCorp till 2014.¹⁴ Also, it is unlikely that Hero will be able to create a product development team of similar caliber to a team from Honda. Honda has years of experience in developing technology, whereas Hero MotoCorp does not.

Brand Image

Impact

Honda is a well-established name associated with reliability, quality, performance and progress. As Hero MotoCorp leaves Honda, it will forfeit its association to these characteristics. Several people will then avoid buying from Hero MotoCorp. Hero MotoCorp loses its advantage over other competitors in the market. The business shall then face considerably more competition.

→ not really appropriate - see subject content.
12 students looking to buy a motorcycle were interviewed in the August of 2011. When asked if they might buy a motorcycle from Hero MotoCorp, eleven replied that they would not consider the business. They questioned whether the product quality would remain consistent after the exit of Honda. They preferred to trust other brands such as TVS and Bajaj which are established. Several owners of Hero Honda two wheelers remarked that they were worried that the service that they would receive from Hero MotoCorp would be of lower quality than that of Hero Honda.

Besides decreasing the willingness of customers to buy products from them, the loss of the association with the brand name Honda also results in the unwillingness of investors to invest in Hero MotoCorp Ltd.. Shareholders also perceive a loss in value of the business because of the exit of Honda. Immediately after the initial decision by Hero MotoCorp to separate from Honda was publicized, the value of their shares fell.¹⁵ Both customers and investors are apprehensive about supporting the new business.

Response

Hero MotoCorp is taking great pains to mitigate the effects of loss in brand image. It has increased its advertising budget from 2496 million rupees in 2009 to 3826 million rupees in 2011- a 53% increase.¹⁶ OK but description ...

The business has launched a new advertising program. Hero MotoCorp approached A. R. Rahman, a famous Indian singer and composer, to create a new song for the business. The resulting song, named "Hum Mein Hai Hero", has become the basis of massive advertising campaign.¹⁷ Clips of the song are often played on television. The advertising campaign utilizes Youtube and social networking websites to greatly further its reach. As of 16 February, 2012, the main video, "Hum Mein Hai Hero", has been viewed approximately 650,000 times on

¹⁴ <<http://www.indiaonline.com/Markets/News/Hero-approves-Hondas-exit-from-Hero-Honda-report/5021461137>>

¹⁵ <<http://archives.digitaltoday.in/business/20020609/features4.html>>

¹⁶ Annual Reports 2009-2010, 2010-2011 <<http://heromotocorp.com/investors/financials>>

¹⁷ <<http://heromotocorp.com/>>

Youtube.¹⁸ In addition, the business has asked viewers to submit their own videos of themselves singing the song. Hero MotoCorp has planned to compile this user-generated content to create a film known as "Billion Voices". Hero MotoCorp has developed a platform for potential customers to invest time and effort in supporting the business. In doing so, Hero MotoCorp is fostering a new relationship between itself and its customers. Hero MotoCorp hopes to reestablish itself as a valuable business in the eyes of the public.

The efficacy of the marketing campaign can be assessed by the acronym AIDA.¹⁹ The acronym lists the various stages in reception by the recipient of the promotion. The promotion must first grab the *attention* of the recipient, then create *interest* in learning more, develop a *desire* to act and finally generate an *action*. The campaign has certainly gathered the attention of a large section of the public. Several of these people become interested and continue to support the campaign by viewing it online. Many comment on the video and the upcoming film, revealing desire. Thousands have already posted their own videos and performed the desired action. When people perform the action, Hero MotoCorp succeeds in establishing relationships between the business and potential customers. By establishing a community around the business, Hero MotoCorp also hopes that favorable word of mouth about the business will spread.

In addition, the business can change how the brand is perceived by customers. Radha Suresh, the owner of CorporatePromotions, an advertising agency for businesses, noted, "They've [Hero MotoCorp] has steered away from the flashy gimmick of showing motorcycle stunts, and has portrayed their product as a practical tool for business and transport. On the whole, the business seems to want to address family and business needs rather than the fancies of the urban elite."²⁰ As Hero Honda, the business continually promised better performance than previous models. Now, as Hero MotoCorp, the business stresses the importance of people relying on their motorcycle for their everyday work. The business pinpoints their product's hardiness as the most valuable thing to consumers. This portrayal of reliability attempts to directly replace the association of Honda with assured quality. Hero MotoCorp targets a rural audience by emphasizing its products' off-road capabilities, durability, price advantage and 'made-in-India' label.

Has the marketing campaign managed to restore Hero MotoCorp's brand image to its initial state? The twelve people in the market for a motorcycle were interviewed again two months later, after the marketing campaign came into full force. Eight stated that they would now consider Hero MotoCorp as one of his options. Four, however, remained with their original opinions. They would not consider buying a motorcycle from Hero MotoCorp. For them, the doubts about reliability remained too big a concern.

Hero MotoCorp's new advertising strategy has significantly aided in recovering Hero's brand value. But Hero MotoCorp will still find it difficult to entirely replace within a matter of months, the reputation that has been built up by Honda over decades.

¹⁸ < <http://www.youtube.com/watch?v=Yc0CVEuUvRs> >, < <http://www.youtube.com/watch?v=URQ8Tfk6iqU> >

¹⁹ Hoang Paul, *Business and Management*, pg. 566

²⁰ Interview (Radha Suresh – Owner of CorporatePromotions)

Expansion

Impact

Hero MotoCorp, besides experiencing difficulties from the ending of the joint venture, is also affected positively. The business, now independent of Honda's disapproval, can now enter new markets without opposition. The business can also work to increase production. The new abilities of Hero MotoCorp are very beneficial to the business. *Evidence ?*

Response

Hero MotoCorp has used its new opportunities to further penetrate the rural Indian market. They have begun a comprehensive marketing effort for this purpose. Their advertising campaign, "Hum Mein Hero", often shows the bikes in rural areas. The advertisements stress the ability of the bikes to travel well in off-road conditions, as well as its lower cost. In addition, Hero MotoCorp reaches out to villages through CSR as well. The business has built hospitals, schools, vocational training centers, and sports training centers in rural regions.²¹ Hero MotoCorp has also increased the number of touchpoints- points of contact between business and customer for buying, selling, and service – by large amounts. From 3500 touchpoints in 2008, Hero MotoCorp has established over 5000 in 2011.²² Many of these new touchpoints belong to rural regions.

Hero MotoCorp is also preparing to enter the global market. Hero MotoCorp has declared its intention to enter the market of countries similar to India. Hero MotoCorp Ltd. has proven to itself that it has a successful business model under particular conditions, and seeks these conditions outside of India. The business can capitalize upon these conditions and make the most effective use of their knowledge. But this type of expansion requires large initial investments in money, which Hero is currently unable to make. Therefore, this expansion must be put on hold until a later date. 80% of the two-wheeler market exists in Asia alone²³. So, expansion of the business outside of Asia will not produce considerably more revenue than what the business receives in India. Expanding globally is not an immediate priority of Hero MotoCorp. Penetrating rural markets in India to greater depths would prove more effective for the short term.

In preparation for expansion, Hero MotoCorp has increased its production capacity. This increase is especially significant in the past few years.

Comparison of Production Capacities over Time²⁴

Year	2008	2009	2010	2011
Installed Production Capacity	3.4	5.3	5.4	6.15
Used Production Capacity	3.333	3.722	4.596	5.409
Increase in Production Capacity from Previous Year	-0.193%	11.651%	23.493%	17.690%

*Values are in millions of units

²¹ Annual Report 2007-2008, 2010-2011 < <http://heromotocorp.com/investors/financials>>

²² Annual Report 2007-2008, 2010-2011 < <http://heromotocorp.com/investors/financials>>

²³ <<http://www.economist.com/node/12544913>>

²⁴ Annual Report 2007-2008, 2008-2009, 2009-2010, 2010-2011 < <http://heromotocorp.com/investors/financials>>

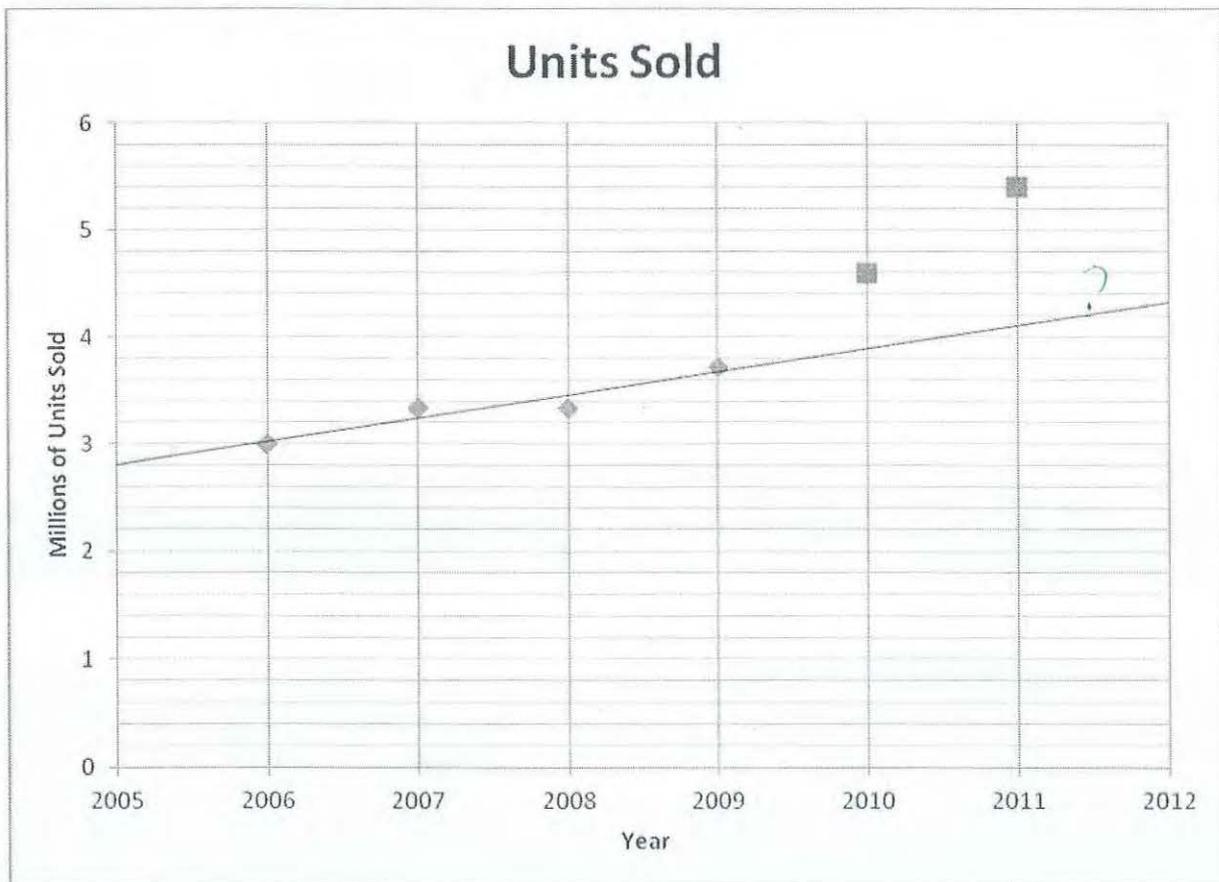
The increases in production capacity indicate that the business desires to become larger. Hero MotoCorp is planning for more customers and larger markets. Hero Motocorp will be able to- once the business has firm footing within India.

Early Indicators

Current measurements of market share, sales turnover and capital employed provide a glimpse of the business's immediate future. It is important to recognize that these figures do not provide us with definite predictions of the future of Hero MotoCorp. But, they do provide us with a better context in which to understand how the performance of the business will change.

It is also important to note that Hero MotoCorp has not yet completely stopped relying on the technology of Honda. Changes in performance may occur when the business completely separates from Honda in 2014.

Sales Turnover (units sold)²⁵



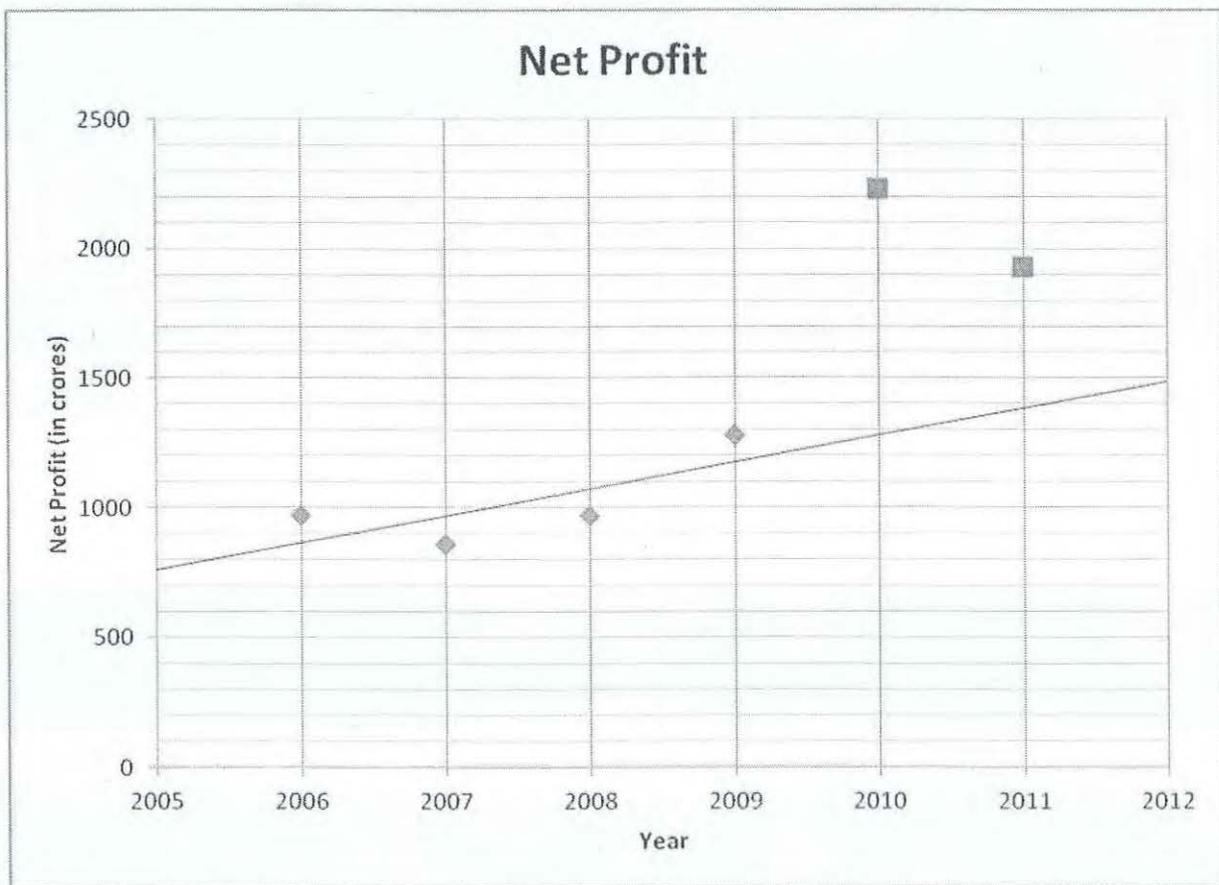
²⁵ Annual Report 2006-2007, 2007-2008, 2008-2009, 2009-2010, 2010-2011
< <http://heromotocorp.com/investors/financials> >

As we can see from the graph above, more units have been sold in recent years. The number of units sold is also even greater than the trend of the past few years predict it to be. This may indicate Hero MotoCorp's improved ability to reach customers. It may also be the result of a larger available market due to other factors. The recession may have prevented many from making the large purchase of a two wheeler. - But it has increased!

This data does not provide us with information of how the business is performing with respect to the available market, but it does confirm that the business's sales turnover is steadily increasing. As the number of sales increase, profits will as well.

no information after

Net Profit²⁶



*Net Profit after Tax

The net profit of Hero MotoCorp increased above the trend of the past few years. There is a decrease of the net profit of 2011 as compared to that of 2010. This, according to the business, is due to the presence of higher raw material costs in 2011²⁷. This graph indicates that Hero MotoCorp is not in a situation in which it ought to fear going bankrupt. The business is not only

²⁶ Annual Report 2006-2007, 2007-2008, 2008-2009, 2009-2010, 2010-2011 < <http://heromotocorp.com/investors/financials>>

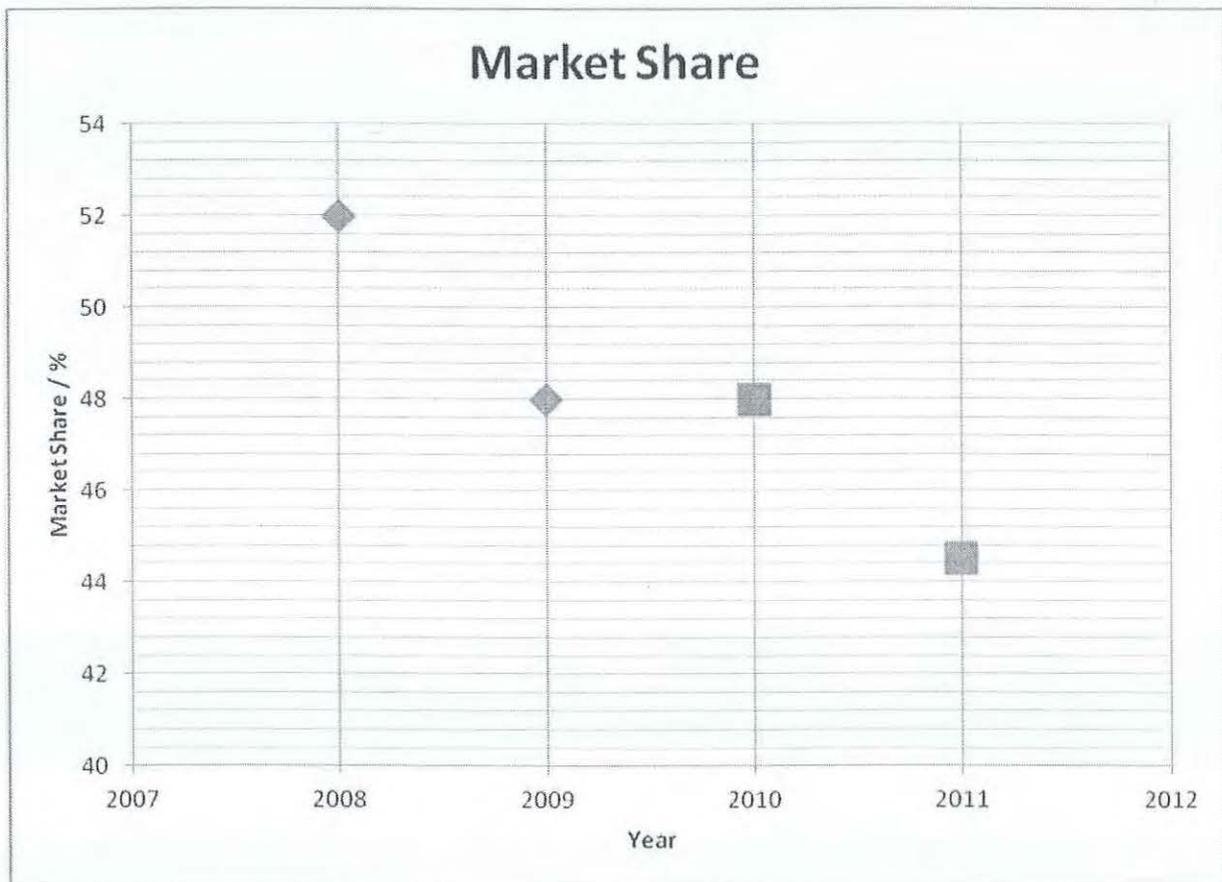
²⁷ Annual Report 2010-2011 < <http://heromotocorp.com/investors/financials>>

↓ Cash

capable of surviving, but is able to improve its own standing in the market. The increases in net profit are high, especially towards the last few years. This data, similar to the sales turnover data, does not provide any information of how Hero MotoCorp was performing in relation to the entire market and its competitors. It only emphasizes the business's financial security. S.S.

Eventually, the business may increase its net profit by no longer having to pay royalties to Honda. But, the reduction in cost of royalties will then be matched or surpassed by the costs of supporting a research and development team.

Market Share²⁸



Despite the increasing sales turnover and net profit, Hero MotoCorp's market share is decreasing. The decrease is especially marked in 2011, the year in which the joint venture was dissolved. This indicates that Hero MotoCorp's internal growth is not as rapid as the growth of the market. The market share that Hero MotoCorp has lost is redistributed among Hero MotoCorp's competitors.

²⁸ Annual Report 2007-2008, 2008-2009, 2009-2010, 2010-2011 < <http://heromotocorp.com/investors/financials>>

Hero MotoCorp's ability to create large profits dwindles during this transitional period. When Honda removes all technological support, Hero MotoCorp is likely to lose market share by more drastic amounts.

It is possible that the trend seen in the graph above is merely due to other factors, such as new competitors in the two wheeler market or the exceptionally good performance of another competitor. But, there is no notable news of improvement by competitors. This indicates that the loss in market share is due to internal, rather than external factors.

TVS Suzuki: A Comparison

TVS Suzuki split in 2002 after a 19 year joint venture²⁹. TVS Suzuki was in a very similar position to Hero Honda. Suzuki provided technological support to TVS for royalties. Suzuki was unwilling to sell knowledge of 4-stroke motorcycle engines to TVS, just as Honda is unwilling to sell technology that meets Bharat IV requirements to Hero.³⁰ The joint venture was on the verge of completely collapsing.

³¹Unlike Hero MotoCorp, TVS anticipated the split, and set up its own research and development team. In fact, in the same month that TVS and Suzuki announced that they were dissolving the joint venture, TVS made a release of a motorcycle model- Victor. The technology for this motorcycle was produced entirely by TVS. It contained a four-stroke engine that was engineered without any contribution from Suzuki.

This anticipation of change enabled TVS to have a smoother transition than Hero MotoCorp. Hero MotoCorp has released a motorbike with its new brand name only a year after the split was announced. This delay costs the business, especially in the form of royalties that must be paid to Honda. Had Hero MotoCorp created its own research and development team earlier, the business would be under less stress. Because of this, Hero MotoCorp will suffer more in terms of performance than TVS. Despite the early creation of the team, TVS's costs for research and development rose from 349 to 900 million rupees in a year after the break up. The costs for Hero MotoCorp will certainly be much higher.

Despite TVS's easy transition, TVS still lost much of its original market share. By different estimates, it lost between 20 to 25% of its initial market share of approximately 23%.^{32,33} In the following years, it only came in third – behind Hero Honda and Bajaj Auto. It is only recently that TVS has become the second largest two wheeler manufacturer in India.³⁴

On the basis of this information alone, we can know that Hero MotoCorp will suffer a major decrease in market share and profitability soon after the completion of the break up between Hero MotoCorp and Honda.

But, unlike TVS, Hero MotoCorp has spent large amounts of money in effectively advertising and expanding the business. TVS also spent approximately 500 million rupees in

²⁹ <<http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy1/Business%20Strategy%20The%20TVS-Suzuki%20Break-Up.htm#Road%20Ahead>>

³⁰ <<http://archives.digitaltoday.in/business/20020609/features4.html>>

³¹ <<http://business.outlookindia.com/printarticle.aspx?269608>>

³² <<http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy1/Business%20Strategy%20The%20TVS-Suzuki%20Break-Up.htm#Road%20Ahead>>

³³ <<http://www.business-standard.com/india/news/a-low-cost-break-up/96843/>>

³⁴ <<http://archives.digitaltoday.in/business/20020609/features4.html>>

advertising after the joint venture was dissolved.³⁵ But, this marketing effort is minute compared to the efforts taken by Hero MotoCorp, which increased its advertising budget by more than 1330 million rupees to 3826 million rupees. Hero MotoCorp's marketing and expansion will certainly mitigate losses in market share and profitability to some extent in the short term. In the long term, this will lead to a significant increase in market share.

Conclusion

Hero MotoCorp could suffer a significant loss in performance for the few years immediately following Honda's exit from the joint venture. It will lack much of the former technological capabilities it once enjoyed through Honda. The business will also lack an established brand image. However, with time, it can rebuild its market share and regain its profitability. It will be able to do this because of its aggressive efforts in advertising and in penetrating the rural Indian market. Throughout this time, Hero MotoCorp is not under any threat of going bankrupt as a business. It is still increasing its sales turnover and net profit by large amounts. It will, however, lose much of its market share. Hero MotoCorp has also established and expanded the infrastructure necessary to generate large numbers of two wheelers. In time, Hero MotoCorp's plan to enter the global market will make it a considerably more profitable business. There are still other factors to consider, such as the relationship that Hero MotoCorp will now hold with its dealers. But, the major factors affecting Hero MotoCorp have been addressed.

The transition between caterpillar and butterfly requires, unfortunately, a period in which the insect is trapped inside a cocoon. Exiting a difficult transition, Hero MotoCorp will become a more profitable business than it ever was.

Other businesses considering leaving joint ventures would do well to examine the example that Hero MotoCorp has provided. They would recognize the necessity of aggressively countering the negative aspects of the change and exploiting the positive aspects. They would also learn that anticipating and preparing for change before it occurs proves more useful than hasty vigorous action during change.

Word Count: 3967

cash flow position?

³⁵ <<http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy1/Business%20Strategy%20The%20TVS-Suzuki%20Break-Up.htm#Road%20Ahead>>

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Examiner Feedback form

Examiner:

Session: May 2012

School:

Candidate Name:

Candidate Number:

Comments

Abstract

All three elements were included.

Introduction

set the research question in a business context and the reason why the research is relevant

Conclusion

Conclusion is consistent with research, however it does not produce/recommend strategies moving forward.

General Comments

primary research relevant to the ee
A range of secondary sources consulted,
however no contrasting research.
More use of charts to show primary research
would have been beneficial.
Displayed knowledge & understanding of topic,
pros and cons of joint venture.
Communication is clear & consistent.