

**VOLVO INDIA  
PVT. LTD.**

**VOLVO**

## Background

'Volvo' is a Latin word that means 'I roll' – and it has become synonymous with high-quality trucks and buses in several countries. Established in Sweden in 1927, Volvo has today become a truly global company, with operations in over 20 countries, and nearly 90 per cent of its revenue coming from international operations.

Volvo India Private Limited was established in 1998 as a fully-owned subsidiary of Volvo, Sweden. The company has its manufacturing plant at Hoskote near Bangalore, where it assembles heavy commercial vehicles. Set up with an investment of about US\$ 70 million, the plant today operates at 1000 units capacity in a one-shift operation. Increasing the number of shifts can further enhance this capacity.

The company introduced its first truck model, FH12, in the Indian market in 1998. However, even before the trucks commenced production, Volvo had already begun sales operations with its Volvo Penta and Volvo Construction Equipment business units. In 2001, the company introduced its first bus model in India, Volvo B7R, thus moving closer to becoming a complete transportation solutions provider. In the last 5 years Volvo in India has introduced 4 new truck model platforms, a range of construction equipment and engines and recently upgraded the Volvo B7R bus.

In 2001, Volvo overhauled its product range globally, and introduced the new generation FM series of trucks. These have been introduced in India starting early 2003.

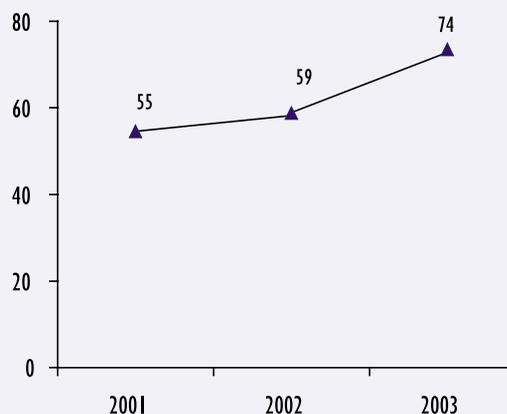
## Steady growth in volumes and turnover

Given the niche market it operates in, Volvo's volumes, as expected, have been low. But the company has been able to grow steadily in terms of sales turnover. Sales grew at a CAGR of about 16 per cent between 2001 and 2003.

On an average, Volvo has been producing trucks and buses in the range of 400 to 800 units. In 2004, Volvo produced around 800 units of these products.

Volvo has cumulatively sold over 1,800 trucks, 450 buses, over 700 construction equipment units and

### Volvo Turnover (US\$ Millions)



Source: Volvo company sources

about 3,500 marine and industrial engines, since it started operations in 1998.

## Factors for success

Volvo's slow and steady growth in India has been due to a combination of factors – a clear strategy that was meticulously executed, focus on customer training and education, a range of top of the line HCVs that aim at offering customers greater productivity levels and transport economy. This has been backed up by a service and parts strategy that has grown in tandem with its sales growth and coverage. Customers who had the loads in contract, find that with Volvo, they can do much more production, with far fewer trucks and operating costs. Since the time Volvo entered India, the fuel costs have escalated steeply. This has helped favour these fuel-efficient products (by concept & technology) in offering greater opportunities in improving the transport economy. The Indian government's focus on highways development can help make prospects even better and most importantly expand the niche segments that Volvo operates in today.



## A clear strategy, well executed

When Volvo entered the Indian market (and even today, to a large extent) the Indian commercial vehicle market was dominated by single rear-axle medium range vehicles. This was due to various reasons. One reason is that the industry has been largely unorganised with very few fleet owners being able to manage continuous loads. Lack of adequate laws governing trucks has been a disincentive to enhance truck standards; and of course, logistics bottlenecks challenge





attempts to improve truck productivity. All this has led to low expectations from the trucking industry. This has been further aggravated as a result of poor infrastructure and tax structure.

However, Volvo decided not to enter the volume segment and instead, adopted a strategy of focusing on high-end commercial vehicles wherein lay its strength. These vehicles provided value through being highly reliable, fast and capable of carrying higher loads. To that end, the company consciously chose to remain a niche player and focused on specific customers for whom their products could add value where the circumstances were right. This also meant that Volvo carried out detailed studies on each customer's application to confirm the truck viability. Volvo also facilitated a match of expectations between the fleet operator and the final user of transport.

By playing to its strengths and being focused on identified segments, the company has been able to clearly differentiate itself and achieve a position from

where it can successfully enter the volume segment also, if required.

### **Gaining customer confidence in a niche market**

Volvo's products were state of the art, high-end trucks and buses that were priced 2-3 times what the Indian market was used to. As such, these products needed intensive selling and customer education. Over time, the company has been successful in selling the concept of heavy duty, highly reliable trucks that offer better economies through carrying more loads, enabling faster turnarounds and being practically breakdown-free. The company also provided value-added services like driver training, preventive maintenance and service agreements, and worked closely with its customers to improve vehicle utilisation and returns.

As the products delivered what they promised and provided superior return on investment, Volvo was able to gain customer trust and confidence, and has thus established a name for itself in India.



### Product technology, quality

Volvo's trucks and buses offer technology, quality, comfort and safety features that are far beyond what the Indian market was exposed to earlier. For example, its FM range of trucks, launched globally and in recently India, are already Euro III compliant, though these standards are to be implemented in India only by 2007.

In terms of engine capacity and performance, ruggedness of the vehicle, cabin comfort (ergonomics, visibility) and even in fit and finish and painting and aesthetics, these vehicles far exceed customer expectations – in fact, in areas like cabin comfort and fit and finish they are as good as luxury cars. These features greatly reduce driver fatigue, breakdowns and routine maintenance, thereby enabling far higher utilisation levels than other CVs.

However, the final quality is determined by the number of Volvos that operate extensively all-year round without unplanned stops, across a range of terrains,

keeping high average speeds and providing productivity and profitability levels far higher than typical across segments. With many a truck crossing its first 5 years of operation, Volvo product quality and technology is increasingly being appreciated.

### The Indian government's highways development projects

The Government of India's highways development projects – Golden quadrilateral and the North-South and East-West corridors will aid Volvo's strategy to become even more effective. As road and port infrastructure improve, road





transportation in India is expected to evolve into a hub-and-spoke model, where goods transport in bulk will take place between hubs. In this case, demand for higher capacity trucks and buses will go up, and Volvo will be one of the prime beneficiaries.

### **Leveraging India as a global source for components**

Like other auto MNCs in India, Volvo has also focused on exporting components from India to its global operations. It currently exports components from India

for the Volvo group, as well as CBU buses to SAARC countries. Component exports amounted to US\$ 19.6 million in 2003, and were expected to go up to US\$ 36.4 million in 2004.

The Volvo Group is actively pursuing opportunities to outsource component supplies for its plants around the world. According to Ulf Nordquist, MD of Volvo India, "We have already set up a dedicated source for outsourcing forged components, cast parts and sheet metal segments for trucks. Some of the companies have already upgraded their facilities to meet our stringent requirements".

### **Leveraging India as a global source for software**

Apart from component exports, Volvo also sources software from India. In 2003, the company sourced about US\$ 3.13 million worth of software development work from its IT division in India for its parent company and subsidiaries across the globe, in areas of transport solutions, maintenance and engineering. Revenues from IT outsourcing are expected to be about US\$ 5.5 million in FY 2004.



## Future plans

Having worked hard to change customer mindsets and expectations with regard to road transport in India, Volvo has long term plans to develop and grow with the market.

- The company has recently introduced select models from its FM range of trucks that were globally launched last year. It plans to maintain a dominant market share in the high-performing tractor-trailer market in India.
- Volvo proposes to take important steps in the next three years to expand its workshop and dealer networks, integrating Indian component vendors and also to export trucks and buses in the SAARC region and other select markets.
- The company has plans to take each of its business units: trucks, buses, construction equipment, engines, IT outsourcing and global sourcing on their logical growth path.
- Encouraged by the fast-paced construction on the North-South/East-West corridor and the Golden Quadrilateral, the company expects volumes to



grow significantly in the next five to seven years.

- The next few years will also witness an increasing proportion of export volumes in the sales of its trucks and buses.

