The TVS-Suzuki Breakup
BSTR028 – Sample Questions and Answers

This case was written by Subhadra. K under the direction of A. Mukund, ICFAI Center for Management Research (ICMR). It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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SAMPLE QUESTIONS AND ANSWERS

Question 1. TVS Suzuki is often described as an ‘illustration of the way the Indian two-wheeler market has evolved.’ Briefly discuss the performance of TVS Suzuki over the years in the two-wheeler market.

Ans 1. TVS Suzuki was one of the earliest Indo-Japanese motorcycle joint ventures in India. It was incorporated in 1982 as Indian Motorcycles Pvt. Ltd. In 1984, after a public issue its name was changed to TVS Suzuki Ltd. TVS Suzuki launched the two-stroke 100cc motorcycle Ind Suzuki in 1984, which became an instant success. However, the company failed to sustain this initial success even as rivals like Hero Honda, Escorts Yamaha, Kawasaki Bajaj entered the market. As a result, TVS Suzuki, which was banking on the two-stroke vehicles, had to face fierce competition from the four stroke vehicles launched by its rivals. TVS Suzuki’s two-stroke products lagged behind the four stroke vehicles of competitors both in fuel efficiency and performance.

In the early 1990s, following a sharp slowdown in income growth, high inflation, increase in interest rates, fuel prices and increase in two-wheeler prices due to increase in excise duty, the industry faced a recession. This affected TVS Suzuki badly. The company also faced labor problems and was forced to declare a lock out for three months in 1991-92.

In 1992, when TVS Suzuki could not get any help from Suzuki either in the form of funds or technology, it was forced to formulate a turnaround strategy by itself. As part of the turnaround strategy, the company embarked on cost cutting, reduced manpower and implemented inventory controls. With the help of production engineering, R&D skills and innovation, it introduced variations of its 100 cc models.

In 1994, the industry bounced back from recession. TVS Suzuki launched a scootertette, TVS Scooty. TVS Scooty was successful and it generated volumes for the company and TVS Suzuki declared its maiden dividend. By 1995, it had become the second largest two-wheeler company in the country.

New emission norms that came into effect in 1996 forced TVS Suzuki to review its strategy of focusing on two-stroke bikes. It had two options – shift to four stroke technology or introduce fuel injection equipment or try a combination of both in its two-wheelers. But TVS’s partner Suzuki had only two stroke vehicles in its product range. As a result, TVS decided to venture into the scooters segment and launched India’s first four-stroke scooter TVS Spectra in 1996. The model fared badly in the market and had a negative affect on the company’s profitability. Increased competition from Bajaj and Hero Honda resulted in the sales of TVS Suzuki’s top brands dropping significantly in fiscal 2001. To protect its market share, the company had to offer steep discounts – Rs 3,000 and Rs 2,000 on the Max 100 series and Samurai respectively. The company managed to post a meagre sales growth of 12% in motorcycles with Fiero’s success.
**Question 2.** Launching new products and continuous upgradation of existing models can help a company in standing out in the highly competitive Indian two-wheeler market. Analyze the new product launches of TVS Suzuki.

**Ans 2.** TVS Suzuki introduced its maiden 100cc motorcycle called Ind Suzuki in 1984. In 1987, it launched TVS-Champ – a moped for the urban market. In 1992-93, with R&D and product engineering efforts, new models were launched – Suzuki Samurai, Suzuki Shogun, Suzuki Max 100, Suzuki Max 100R. Each of these launches was backed with aggressive marketing.

In 1996, TVS Suzuki initiated ‘Project Neon’, under which it developed a 4-stroke scooter. This vehicle was launched as the TVS Spectra. The launch of this vehicle coincided with that of Bajaj Legend which was priced lower. The sales of Spectra were discouraging – only 520 units per month. In 1997, TVS Suzuki launched India’s first 5 speed motorcycle – Suzuki Shaolin. Around the same period, the Suzuki Shogun was launched with a catalytic converter. However, these models did not meet emission norms and TVS Suzuki found that it couldn’t produce them in a cost-effective way. They were phased out.

In April 2000, TVS Suzuki became India’s first company to launch a 150cc four-stroke motorcycle – Suzuki Fiero. This model sold well and secured a 3% market share within a year of its launch.

**Question 3.** The TVS Suzuki break up was viewed as a predictable end to a long and uneasy relationship. Critically comment on the above statement and analyze the reasons for the breakup between TVS and Suzuki.

**Ans 3.** Over the years, Suzuki played a very passive role in the joint venture, unlike its role in the joint venture with Maruti to produce passenger cars. In the early 1990s, when TVS Suzuki was facing fierce competition, the Indian management approached Suzuki for more funds and new technology. However, Suzuki did not extend any help to the joint venture and the Indian management was forced to affect the turnaround on its own.

In the mid 1990s, Suzuki tried to gain the management control in the joint venture. This led to further disputes between the two partners. However, as the Indian promoters were against Suzuki’s stake being hiked, Suzuki dropped the idea. With decreasing revenues from the Indian joint venture in the form of royalties and technical fees, there was no role for Suzuki in the venture. Unlike in the early 1990s, with free availability of the technology, there was no necessity for TVS Suzuki to depend on Suzuki for the technology. With the launch of TVS Scooty and the ability of its engineers to produce the Shaolin and Shogun models from the original Suzuki design, TVS Suzuki realized that it could do well without Suzuki. Moreover, the import of technology from Suzuki had decreased considerably over the years. TVS Suzuki’s four stroke, TVS Victor was designed without any technological help from Suzuki.

Lastly, the August 2001 global alliance between Suzuki and Kawasaki created a conflict of interest for Suzuki in India. According to analysts, both Kawasaki and Suzuki may enter India together in the future and Kawasaki was already into a successful joint venture with Bajaj, a rival of TVS Suzuki.

**Question 4.** “Suzuki’s exit raised questions about TVS’ performance and even its survival in the future.” Discuss the post break-up alternatives available to TVS to stage a comeback.

**Ans 4.** The break up of the joint venture between TVS and Suzuki did not come as a surprise to industry watchers. But, the future of TVS without the foreign collaborator was uncertain especially with the motorcycle segment witnessing a barrage of new product launches from most players. This would further weaken TVS’s position. TVS would lose out to rivals as developing the product in-house would take much longer. Also, TVS-Suzuki’s rivals were equipped with new
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designs from their venture partners that would help them, race ahead of TVS in launching new products. Other than the Fiero and Victor, the company had no four stroke vehicles under its fold. Besides, with Suzuki’s absence product acceptability in the future was doubtful. Moreover, it was estimated that company would incur around Rs 2 billion in conversion costs to four-stroke technology. New product launches coupled with conversion costs were expected to drain the company’s reserves.

Some analysts also believed that TVS Suzuki could not be written off so easily. They felt that technology was not an issue as other than the Fiero, Max 100 and the Samurai, there was no vehicle that required major technological collaboration from Suzuki. But TVS Suzuki’s good performance gave the company and analysts hope about its future.

Some of the possible post-breakup alternatives are:

a) Invest more resources on building its R&D infrastructure  
b) Develop a system of launching newer models with minimum investment and development time  
c) Consider entering into alliances with foreign players in design, development, marketing, etc.  
d) Enter overseas markets through exports.

**Question 5.** “A joint venture is a special purpose vehicle set up by two entities for the purpose of learning. It will work as long as both want to learn different things. Once this is achieved by either or both partners it is time for disengagement.” Do you agree that joint venture is a short-term strategy? Justify your answer.

**Ans 5.** A joint venture is an alliance between two partners to undertake an economic activity. The purpose of the joint venture can be to execute a project or to continue a business activity. In the former case, the joint venture is time-specific, i.e. the partners go their separate ways once the project is executed. But when joint venture is a continuing business relationship (like the TVS-Suzuki JV, Sony Ericsson, etc), it can continue for a long time, provided both partners obtain benefits from the joint venture.

Companies enter into joint ventures to cut costs, reduce their exposure to risks, secure access to additional finances, enjoy benefits of economies of scale, gain access to new technologies/customers, or access to innovative managerial practices. In some cases, strategic goals like drawing synergies, or diversification may be the purpose behind joint ventures. So, as long as both the partners are deriving benefits from it, a joint venture will continue.