



The Joint Venture that works.....

General Motors AvtoVaz

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From VAZ 2121 NIVA



TO
CHEVY
NIVA...



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GM-AvtoVaz



Introduction

- AVTOVAZ founded in 1971
- First NIVA (Vaz 2121) was produced in 1977

Before Joint Venture:

Russian auto industry undeveloped

- - no direct competition due to few producers
- - cash only business

Forces pushing towards joint venture

- - Western Automakers
- - Russian Automakers

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AvtoVaz: 1998 – 2002 Figures



- ▶ AvtoVaz has 1.34% of World production
- ▶ Growth is picking up



	1998	2002	Change
vehicle unit sales	591,000	768,030	29%
net sales	62,982,000	119,432,000	89%
Operating income (loss)	-11,661,000	5,952,000	151%

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Source: AvtoVAZ Annual Report 2002 & 1998

GM



1 Automobile Manufacturer Worldwide

Markets:

1. North America - **GMNA**
2. Europe - **GME**
3. Asia Pacific- **GMAP**
4. Latin America, Africa and Middle East - **GMLAAM**

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Automobile Production Worldwide

Year 2002 (in thousands)

Region	Industry	GM	GM as % of Industry
GMNA	20,118	5,623	28.0%
GME	19,172	1,662	8.7%
GMLAAM	3,673	635	17.3%
GMAP	14,373	605	4.2%
Total Worldwide	57,336	8,525	14.9%

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Source: GM Annual Report 2002

Primary Goals of Joint Venture

- Introduction of higher quality
- Lower Costs
- Efficient systems
- Strengthen trust of western companies to Russian business
- Further attraction of investments in automotive industry in Russia

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History of GM-Avtovaz

- Agreed on 30 July 2001
- \$99.1M in cash & equipment (41.5%) (GM)
- AvtoVaz \$99.1M in intellectual property, rights for Niva car, special buildings and facilities (41.5%)
- European bank of reconstruction & development put down \$40 M in cash
- Total sum of investment = \$338 M

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GM Strategy Analysis: Why Joint Venture?

- Readily available cheap workforce
- Getting access to 65% market share of Avtovaz in Russia
- Lowest corporate taxes in Europe (13%)
- Earned recognition of Niva (Paris-Dakar race winner)
- Distribution is hard to set up in the foreign country
- Equal rights with Avtovaz, thus equalizing the risk of the joint venture

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Pros of Joint Venture for GM (con't)

- Government support for increasing employment
- Friendly management who have paralleled interests with GM
- GM manager at the top of the venture (J.Milonas)
- Absence of tariffs
- Lower Exchange Risk since all production is made and sold in Roubles
- And all that for just \$63 million!!!

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Why Not Direct Entry ?

- No distribution channels apart from the ones GM might have had in large cities
- Transportation expenses and tariffs making cars too costly
- Somewhat hostile treatment from government and people, anti-US sentiment (Multinational taking our people's earnings and repatriating them to the US)

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Why Not Buy a company?

Not possible due to 50% local ownership regulation for key industrial units

Even if GM bought the Niva Division:

- Cultural shock with workers who have different mentality
- Total exposure to FOREX and economic risk, 1998 was not forgotten in 2001
- GM would not prefer to open a wholly-owned plant since Russia is still quite unstable in the eyes of foreigners.
- Total exposure to political risk, i.e. possible re-nationalization

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Why Not Sell Auto-Kits?

- Transportation expenditure and control, import tariff expenditure
- Car would be too costly for Russian consumers.

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Rouble Depreciation

- Russia was providing 30% interest rates and then defaulted
[Repercussions felt around world (flee to quality)]
- Financial crisis cause RBL 11/\$ → 25/\$
- Russian companies enjoyed the strains on competitors
 - Russians had to buy autos at \$10,000 or less

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Hedging Strategy

- Forward Market Hedge – futures contract
- Money Market Hedge – loan agreement
- Options Market Hedge – Put Option
- Strategy Decided by:
1. Risk Tolerance 2. Speculation

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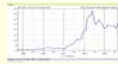
General Motors Decision

- Many Western automakers have not ran successful operations in Russia
- GM is running a very risky business venture
- To eliminate risk GM can cover all transactions with forward contracts

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Why is this JV interesting?



- This is one of the few international ventures that really worked
- It created an immediate and continuous increase in the stock price
- The cultures managed to blend together
- GM is optimistic about it and that may mean further expansion
- Venture would continue to do well because the trial period has already been successful

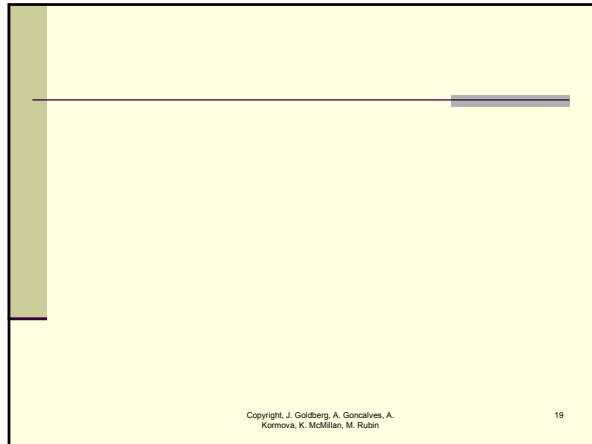
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Q&A.

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GM Europe (GME)

- sales operations in 26 countries
- ten production and assembly facilities in
- 7 countries

Brands

- Opel, Vauxhall, Saab, Cadillac, Chevrolet, Daewoo

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GM Latin America/ Africa/Mid-East (GMLAAM)

- manufacturing and assembly operations in 11 countries

Brands

Buick, Cadillac, Chevrolet, GMC, Suzuki
HUMMER, Opel, Saab,

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GM Asia Pacific (GMAP)



- Automotive facilities and sales operations in 15 countries.

Brands

Buick, Cadillac, Chevrolet, Daewoo, Holden, Isuzu, Opel,
Saab, Subaru, Suzuki, Wuling

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GM North America (GMNA)

- Designs, manufactures and markets vehicles for the U.S., Canadian, Mexican, Puerto Rican, Central American, and Caribbean markets
- Aftermarket products and services
- 100 manufacturing, assembly and warehousing facilities

Brands

Buick, Cadillac, Chevrolet, GMC, HUMMER,
Oldsmobile, Pontiac, Saab, Saturn

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