

Gearing to Go -- Future Trends in Indian Automobile Market

Author: Vivek Vaidya
September 2003

Introduction

Peter Drucker refers to it as "the Industry of Industries". It is the backbone of Petroleum, Steel and manufacturing sectors. It creates employments for thousands and gives birth to many entrepreneurs. It satisfies one of the most basic needs of a human being – mobility. It is none other than the Automobile Industry!

It is well known fact that Automobile industry is the cornerstone of some of the most influential economies in the world like USA and Japan. Indian Automobile industry is all set to play the same role in Indian Economy. Indian Automobile today is one of the most modern, growing and vibrant automobile markets on the global map. India is second biggest two-wheeler market in the world. The four-wheeler market in India is also one of the fastest growing and most promising. No wonder, it has become a centre of attraction for most of the global automobile players.

The present document intends to highlight the key issues governing the Indian Automobile Market that need to be considered to make a successful entry in this market. It also intends to glance through the historic developments in this market to gain deeper insights.

Historical Perspective

To understand the pulse of Indian Automobile market, one has to look at its historical developments. Till early 80s, Indian markets were controlled by the government policies influenced by Fabian Socialism, central planning and bureaucratic red-tapism. All production capacities were licensed. The import duties were astronomically high to protect the domestic market from global competition. Foreign investments were not allowed in domestic ventures.

On the other hand, due to population and inefficient public transport system, the demand of automobile far exceeded the supply. The waiting periods touched maddening levels of 10-12 years. Buoyed by such a magnitude of impending demand, Manufacturers got into monopolistic frame of mind. Operating on virtually negative working capital, there was neither any incentive nor business compulsion to upgrade the technology or to build reliability in the product. Manufacturers focussed on cost cutting and value engineering. The after sales service also did not get its due importance in the scheme of things.

Manufacturer's attitude had a rub-off on the Dealers' mentality as well. There was no compelling reason to provide world class buying ambience and after sales service. It was a Sellers Market dominated by handful manufacturers. The choice of models, features, styling was very limited. The manufacturers and the dealers who stagnated in this era found it difficult to survive in the competitive open markets at a later date. Those who survived had to pay dearly regain the confidence from the customers.

Winds of Change

This scene started changing in the 80's. Slowly but surely Government started pulling of various stops in the policies. Slue of initiatives were undertaken to liberalise and modernise the market.

? **In early 80s, the manufacturing capacity licenses were abolished** - Soon the waiting lists shrunk and vanished. Pressure started mounting on manufacturers and

- dealers to “sell” the vehicles rather than merely “distribute”. These were the early signs of market transformation from “a sellers market” to “a buyers market”.
- ? **Technological collaborations with equity participation were allowed in early 80s** – In a very short span of time, a number of joint ventures flourished by adapting to technology appropriate for Indian conditions. The new breed of vehicles was much more efficient, feature-rich and better styled than their counterparts. These products struck the right chord in the market as they addressed unsatisfied demands of the customers. Some new categories like “small car”, “100 cc Japanese motorcycle” which formed the foundation of modern automobile market emerged during this phase.
 - ? **In early 90s, Multinationals were allowed to set up their own manufacturing plants on Indian soil** - This created a huge influx of global giants from Japan, Korea, USA and Europe. They brought with them world-class manufacturing practices, reliable products with tried and tested systems. For the first time Indian consumers were pampered with the simultaneous launch of World models.
 - ? **In late 90s, Banking sector was liberalised** – This made credit available at a cheaper rate. The entry of private banks and Non Banking Finance Corporations improved the efficiency and the service levels. This enhanced the buying power of customer significantly.

These developments aided the transformation from Sellers market to the buyers market. The new customer was knowledgeable, empowered and had bargaining power.

Modern Automobile Market - Key Issues

The latest trends and key issues in the modern automobile market need to be considered for successful entry in the Indian Market.

1. Government – The Enabler

In contrast over the past, Indian Government has switched over its role from controller to enabler. The focus is on providing better infrastructure, growth oriented economic policies and right environment to attract investments.

- ? An ambitious project of interstate highway network, called golden quadrangle, is in its advanced stages of implementation.
- ? Pollution control has become another priority area. There is a proposal to ban all the vehicles older than 10~15 years, which is likely to boost the demand of modern automobile.
- ? The import duties on the CBU and Used vehicles are designed to protect the interests of the automobile manufacturers in India, an incentive to attract foreign investment.
- ? Government has also cut the excise duty to boost the demand. Although, it has met with a limited success in past, with a favourable economic environment, Government may take these proactive steps again.
- ? The oil companies are about to be privatised which is likely to make them flexible and customer friendly.

These developments have made India an attractive and promising destination for any global player.

2. Competition – Cut Throat

The entry of multinationals has put immense pressure on Indian companies. Some of them have entered into joint ventures with multinationals; a few others have invested heavily on R&D to be on their own, others perished. The market has now polarized into two distinct segments:

- ? **Indian Players:** Those who invested in R&D survived. They could launch new models, retain their dealer network and improve on their service in due course of time. They have strategically leveraged their low cost structure to create price

barrier for the competition. Most of them offered “value for money” products to offset their weakness in technology and styling.

- 2 **Multinationals:** The multinationals have launched international products with better technology and styling at higher price points. These products appealed to a different class of customers who were “value-conscious”. This class of customers has an attitude to appreciate evolved product offerings and buying power to purchase them.

Both Value conscious and Price conscious customer segment co-exist in Indian market today. The later is losing its share rapidly. Any potential entrant can consider launching the products targeted at Value conscious segments. However, the value perceptions of the target segment should be analysed in depth. The “features-price” package should ensure an attractive value proposition for the customers.

3. Customer – The King

Undoubtedly the customer has become the King. The modern customer is armed with IT and has higher buying power. The ever-increasing expectations from products and services are a major challenge for all the players in the market. The softer issues have gained as much importance as product features in his brand decisions. There is higher propensity towards choosing brand that befitting the self-image.

In the present market scenario, the transition from “products” to “brands” is complete. The intangible offerings have gained as much importance as the tangible product features. Any new entrant should therefore have a greater focus on brand building. Monitoring customer satisfaction periodically is also very critical. Resources and efforts put behind these activities should be considered as investment on the brand for ultimate success.

4. Customer Care – not just Service

After sale service is the clichéd description of the function. The customer today is looking beyond just fixing the problems. The service experience, ambience and the expertise are sought after. 24-hour breakdown service is not uncommon.

The potential entrant needs to look at this function in larger perspective. It should be “customer care” rather than mere After Sale Service. Raison de entrée of this function should be customer delight. Fixing the automobile should merely be the way to achieve it. This approach would mean higher investments in workshops. More importantly a fresh approach to the intangible softer issues of the customer relationship is recommended.

5. Pollution and Safety norms

Indian two wheelers have already met the most stringent international norms of pollution. The cars are not left far behind. Government of India is dead serious about enforcing them. Euro II vehicles have become a norm in the NCR region, Mumbai and Kolkata. Soon these norms would be enforced in 6 other metro cities and eventually all over India.

Any new entrant planning to make it big in India, should keep in pace with the latest international pollution control norms right from the inception. It would mean higher level of investments in modern technology for efficient engines. Such investments are the business compulsion, hence should not be compromised upon.

Safety in motor vehicles is relatively neglected area in Indian market. There are only a handful models with safety features such as airbag, crumple zone etc. But the awareness is increasing rapidly. Recently use of seatbelts has been made mandatory.

It is therefore recommended that the models be launched with latest international standards of safety. Any efforts to create awareness about safety in automobiles would

generate goodwill among the customer fraternity and would also receive encouragement from Government department.

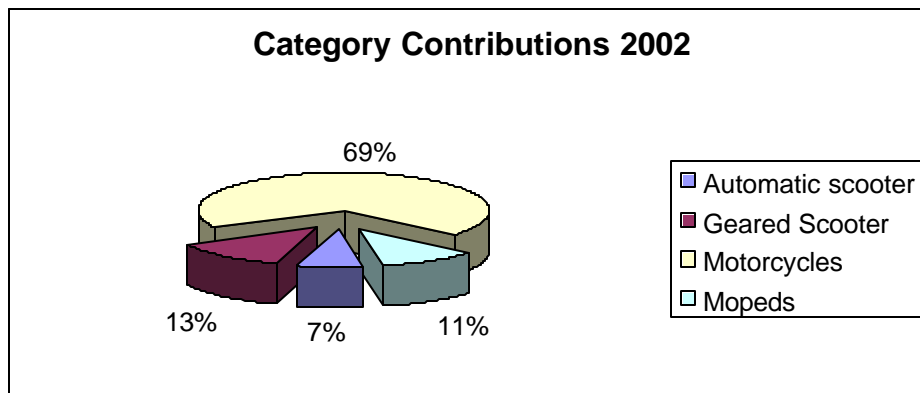
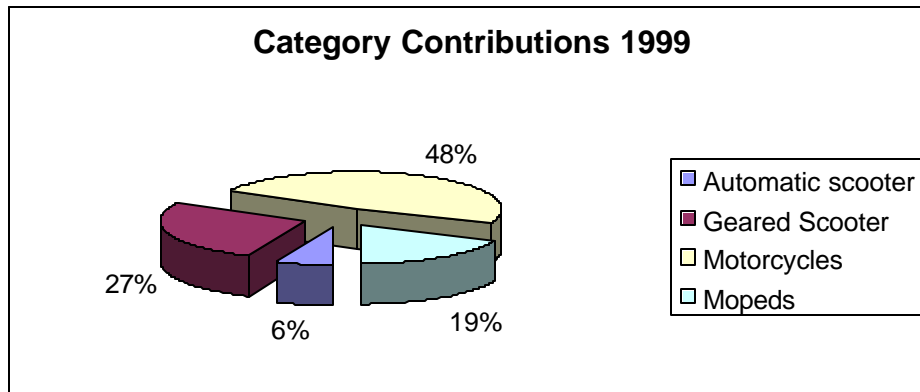
6. Used vehicle Business

Maruti and Ford have pioneered in this business in India. Chain of authorised shops is set up to trade-in the used vehicles. The venture is very successful, as these chains have emerged as preferred destinations for trading used cars. Customers admire the convenience and transparency offered by them, unlike the opportunistic attitude of the unorganised players who controlled the market earlier.

This strategic business unit is strongly recommended for the new entrants. This business is complimentary to the main business. It can also generate handsome profits if run professionally.

Model Launch Recommendations

Two Wheeler



Source **SIAM PRODUCTION DATA** (April-March 1999-2002)

Considering the growth rates and volumes of various categories, two categories emerge as growing categories. The future of two-wheeler market lies with them.

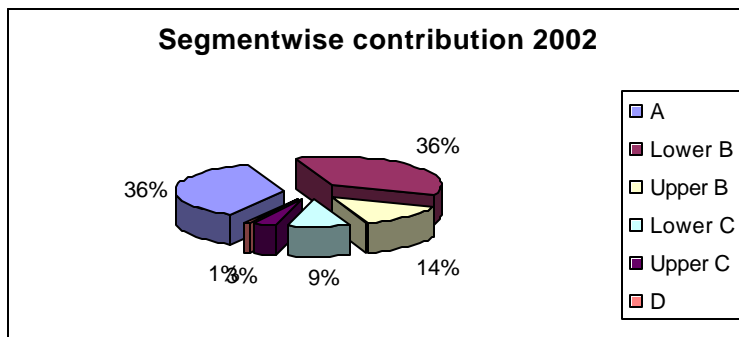
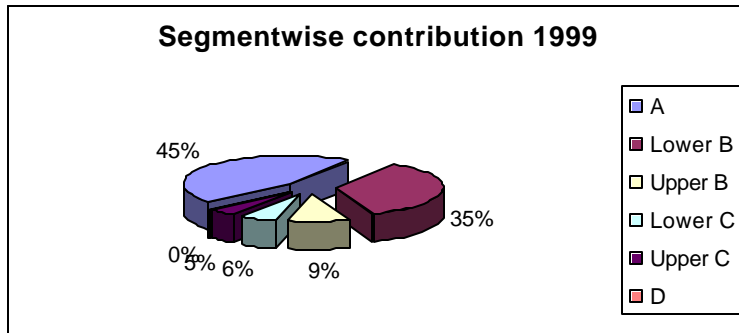
Bikes: Keeping in line with the global trend, motorcycle market growing rapidly in India. Bikes appeal to urban and rural customer alike. Higher engine capacity bikes have done well in the recent past. Styling and fuel efficiency also has improved significantly. Experiments of racer bikes, cruiser bikes have met with a limited success.

Launch of a range of bikes appealing to various class of customer is recommended. The broad segments are economy, premium and power. Adaptation to Indian usage conditions before launch is the key to success. An elaborate market research should be undertaken to fine-tune the product offering.

Automatic Scooters: This segment is likely to be the best gainer from increasing buying power of the urban customer. There is propensity towards owning unisexual vehicle in the family. Hence, there is a strong possibility that the current motorcycle owner may graduate to automatic scooter for overall convenience.

Although, current volumes do not look attractive, we strongly recommend launch of product in this segment. The convenience package offered by this category should be supplemented with lower cost of ownership to become successful.

Cars



Source **SIAM PRODUCTION DATA** (April-March 1999-2002)

Looking at the current volumes and trends we recommend launch of products in following segments

Image Builders: The presence in D segment builds the image for the company. The volumes may not look lucrative to enter the segment. But the product offering demonstrates the ability of the company to manufacture high-end, latest technology, well-styled and comfortable vehicle.

One of the problems faced by the market leader Maruti has been its absence in D segment.

Profit Builders: The current sale trend indicates that lower C segment is growing. Keeping in mind the trends in banking sector and the consumer psyche, we feel that this segment would increase its share in the category. Improving road conditions and infrastructure would make inter-city travel in personal cars very easy. The customer would graduate from A and lower B to Lower C segment for better luggage space, higher power engine and better road handling at high speeds.

Volume Builders: Volume for tomorrow lies in upper B segment the fastest growing segment in the category. Affluent first time customers are likely to find upper B segment attractive. The offerings in this segment combine the best of both worlds – maximum space inside the car and manoeuvrability of a small car. The success of Indica and Palio suggest that this is the segment of future.

An eye on the future

Following are some very diverse trends seen in the market, which also need to be tracked in the future.

1. **Alternate Fuel:** Currently, the use of CNG and LPG is legitimate on all vehicles. The transport vehicles are first ones to adapt to these cheaper fuels. The usage of these fuels is not considered very safe by individuals. But as the equipment starts becoming safer and the distribution of the fuel improves, individuals would start graduating towards them.

It is strongly recommended that any new engine should be compatible to these fuels.

2. **Electric Car:** Reva has met a limited success in the cities. With technological advancements electrical car may emerge as a preferred option as a second car.

This trend needs to be studied for its implications.

3. **Advent of Internet:** Indian customer is known for his propensity towards “touch-n-feel” factor before making a buying decision. But the new generation, which is growing with the Internet, may defy this logic. Internet would assume much larger role than just information dissemination. In the new market scenario, Internet would actually drive the value chain. The customer would use the Internet to place the customised order and expect the manufacturer to fulfil it in the minimum time.

Integrating internal systems and the value chain to Internet since inception is advisable.

The concentration should be to build a value chain that is flexible and lean to adapt to any change in demand pattern. This strategy would attract significant investments in IT infrastructure.

Conclusion

To sum up, Indian Automobile Market is at a stage of take-off. The business and economic environment is favourable for any company planning to set up a manufacturing base in India and manufacture products suited for Indian market. The market is dynamic and is becoming more and more customer-centric. The customer is open to novel products, services and concepts. Apart from plant and machinery, the new entrant should invest a significant effort and resources for understanding the customer and building the brand.

Careful planning, prudent investment decisions, professional management and meticulous implementation of the recommended strategies is the right cocktail for making a “zooming” entry, creating a mark in the market and achieving profitability in the medium term.

About Author

Vivek Vaidya is a strategic brand management consultant in Vertebrand Management Consulting, Bangalore, India. Born in 1971, he did his Bachelor of Engineering in Mechanical from COEP, Pune and Masters of Management from IISc, Bangalore. During last 10 years of his career, he has been associated with prominent Indian Automobile companies like TELCO, Bajaj Auto Ltd and Toyota Kirloskar Motors. He can be contacted at vivekvaidya@hotmail.com for feedback regarding this paper.