CHAPTER: 12
RECOMMENDATIONS

12. It is felt that the following changes need to be made to make the Automobile Industry an engine of economic growth as was envisioned when the sector was opened for private investments. It will also go a long way in reviving the industry from the impact of a recessionary market and sagging demand which continue to cripple its operations.

1) Market Environment

a) Further de-link politics from economics. Issues like petrol-diesel prices, power subsidies etc to be market governed.

b) Have a comprehensive Emission reduction policy. This should include in addition to pollutions from new cars, the permissible life of cars, scrappage rates and emission levels from them. Evolve a structure wherein if cars after some particular time frame are found to be exceeding a particular datum level of emissions, are removed from service. This will go a long way in boosting both car sales and reducing pollution levels. This can be introduced in gradual time and geographic steps. Geographic steps imply allowing these cars to run for some more reduced time frame in other less polluted cities till a particular time wherein the regular time/scrappage norms become valid all over the country.

c) Evolve a system wherein either the excise duty and import duty structure is hiked to promote more indigenisation levels without compromising on quality and boosting sales by giving tax incentives or reducing export duty and import duty across board to reduce vehicle costs to boost sales.

d) Allow market dynamics to determine the petrol-diesel prices and not artificially affect them to remove distortions in their comparative sales levels.

e) Nurture industry during hard times like the end-1990’s rather than giving them a step motherly treatment. The healthy development of these industries is in the interest of the nation. It is essential that during recessionary conditions with falling exports, the export obligations be reduced to allow firms to consolidate in the industry.

f) Since infrastructure building takes time, evolve a comprehensive policy on infrastructure development. The need is to boost development of roads at the earliest and resources and efforts must be directed in this direction.

2) Impact of Monetary Policy on Car Industry

a) Need to stem the tide of falling foreign investments. There has been a considerable decline in the real foreign investments especially after 1997.
b) Maintain the current rates of bank lending to give sufficient boost to the industry.

3) **Productivity Analysis**

a) Need to restrict the flow of capital in the industry. Capital intensities are very high.

b) The industry is over capitalised. The government can restrict the number of players in the industry to prevent over capitalisation. This is also causing fragmentation of scale, which is not allowing any firm to produce at optimal levels.

c) There is a need for price control or a check on price especially on the input side. The output price has not grown much due to competitive pressures, as firms are absorbing costs. However there has been a continuous hike in the input costs.

d) There is an urgent need to boost sales/demand to allow the industry to fully exploit its capital and labour productivities.

4) **Cost Analysis**

a) There is an urgent need for firms to make an effort to cut down on raw material costs. They still represent about 67% of the total costs. Despite advancements in technology and manufacturing processes to reduce wastage raw material costs still remain high. This is despite the fact that there has been a massive growth in all the major infrastructural industries. The need is to strictly enforce price control of inputs.

b) Equity participation is very high and firms can make efforts to dilute it to make further funds available for expansion and modernisation plans in the days to come.

c) There seems to be a mismatch in the selling costs and its distribution amongst components. There is no effective mechanism for optimal selling effort planning. There is a need by firms to draw up selling plans with adequate flexibility to meet changing market conditions and to mould the selling budget according to market responses by making it more reactive to market conditions.

d) Firms are not reaping scalar economies adequately. This is primarily due to low industry scale and fragmented scale amongst a large number of manufacturers causing problems of sub-optimal scale. Since increased spending on selling has not been able to salvage falling sales there is a need to explore additional measures like tax incentives or duty reduction to make cars more cheaper etc.

e) Due to increased competition there is an urgent need to maintain high growth rates of selling costs.

f) Industry can be consolidated by tie-ups by firm to cut down on costs and reduce fragmentation of scale.
5) Financial Ratio Analysis

a) There is an urgent need to check possibilities of getting expenses down on raw materiel costs as they have grown despite increasing scale.

6) Changes in Car Industry Structure and Performance

a) Selling costs should further concentrate on advertising as its main instrument. This can be done by further decontrolling distribution activities to dealers. Since car sales make profits for both manufacturers and dealers, hence dealers should take on greater financial responsibilities on themselves for distribution.

b) It is seen that despite a higher input in terms of selling costs during 1998-99, there was a further decline in sales. Thus media planners should try to incorporate some control on such recessionary trends wherein consumers stay away from the market. Such contingencies should be catered for.

c) There is further need to cut down on costs to increase price cost differentials. This can then be passed on to the public by price reductions and will lead to a boost in sales, which will fuel productivity increases.

d) There is a need to incorporate government policy towards this. Thus in 1999, manufacturers actually indulged in price reductions due to lower costs, however this coincided with the government’s decision to enforce emission norms. This caused additional cost burden of about 25000 RS per car, which the manufacturer could not absorb and hence led to price increases, which defeated the effect of the price reduction.

e) Case is again made for a limit on the number of players or to some form of consolidation in the industry. Since concentration is expected to lower down in the coming years as more models are brought in, this will lead to higher selling expenditures. It is felt that a loose consolidation will avoid an advertising war amongst firms and the wasteful expenditure involved. A less wide industry will be more efficient.

f) Since even higher selling effort and stable prices could not effect consumers during 1998-99, it is felt that this aspect need to be further explored to find out buyer behaviour during recessionary times.

7) Changing Structure of the Car Markets

a) Industry has to do more in terms of research and development in the country. R&D has to move forward from cosmetic product adaptation to Indian conditions to more precise India specific product development.

b) Since over time ultimately the government reduces the limit on equity patterns, it is proposed that the government should remove this farcical clause from the MoU systems in the other industries. For the car industry it has led to a lot of precious time being lost in the fight over equity patterns and changes as Indian partners have not been able to keep pace with their multi-national collaborators in investments as proposed. In a global world, the government should accept
100% foreign direct investments and nurture them rather than trying to bypass routes over time. This should serve as an example for other industry.

c) There is a need for a comprehensive policy on the automobile industry. So far the automobile policy has been very narrow in its outlook. It centres on the flow of investments in the country, giving time to manufacturers to set up production facilities and meanwhile start operations by importing semi knocked down or completely knocked down kits for sale. The expenses incurred on imports are to be balanced by equivalent amount of imports over the prescribed period. In addition firms have to meet domestic content requirements over a particular span of time. The government on this part promised a lucrative Indian market to the manufacturers. However as experience has shown us, the market did not turn out as was promised. Though all new industries are characterised by initial problems however the car industry being capital intensive differs slightly in its implications. Though the government has induced firms to invest a lot of money in the country, it on its part has not done anything to promote the interest of the manufacturers. As a result manufacturers today are facing multiple problems. In the view of a global recession and over capacity as is brought out by various automobile industry analysts, these problems are magnified. The car industry example should serve as a blueprint to guide further investment patterns in other sectors waiting to be opened up. Memorandum of Understanding must incorporate adequate flexibility to deal with such market rigidities as have emerged now. In addition the policy must aim to increase the depth of the industry with corresponding directions and promotion to the allied sector supporting the industry. Thus though domestic content requirements had to be met over a period of 5 years; it takes time for setting up supporting industries of the desired quality and efficiency levels. In addition, though increasing sales make a firms import budget grow however the growth in exports takes time to develop as new markets take time to penetrate. The benefits from the development of an industry whether brought up by Indian capital or foreign investments are primarily ours to reap and hence necessitate weeding out anomalies, which can jeopardise the venture. There is a need to help the development of the industry during crucial times like now.

d) The product has undergone a quantum change in the quality levels and this has been a bane for the industry. However area specific regulations like the banning of vehicles without catalytic converters in the five metros while leaving the other areas will have very marginal effect, thus defeating the aim of the policy. Such measures, which affect the industry as a whole can be applied as a whole and not in parts.

e) The level of technology penetration into the product has been adequate so far. However it is felt that government should give direction to the manufacturers to steer the industry. Thus if safety is a concern for the industry, there should be adequate guidelines along with concerned regulations and incentives to promote this system. Government policy should aim to make the industry in time with the rest of the world. Thus if hybrid cars are the technological marvel of the present, directions along with incentives have to be given to the industry now to move
towards it so as to enable industry to be able to incorporate it within the smallest possible time frame without additional or minimal costs.

i) Analysis of the market reveals several gaps, which the industry can explore for exploitation. Thus we see that there is a very wide gap between Mercedes Benz and others in terms of price in the luxury segment. There is a scope of firms to explore the possibility of creation of another segment in between them.

g) There is a need by some manufacturers to reconsider their positioning as it is leading to cannibalisation of its own sales. Thus as an example we have three models and umpteen variants and versions of Maruti (Zen, Alto and Wagon R) competing in the 3-5 lakh price band.

h) There is an urgent need to narrow down price differentials amongst various regions states and cities in India. This will avoid cross buying of the product and will help the industry.

i) There is an urgent need to bring down the car acquisition costs to boost sales. Since nothing much can be done to improve the income levels required, the answer lies in cost reduction through reduction in duties and excise or through a reduction in raw material costs.

j) There is a need to give a major thrust to the component industry. There is an urgent need at consolidation of the industry.

k) India has a distinct labour cost advantage over other competitive suppliers. However Indian products are still perceived as low on quality. There is a need to exploit this advantage of the industry. Quality certifications must be made mandatory for manufacturers to be achieved in a critical time frame.

l) There is a need to move industry towards a tiered structure. This will essentially require a rationalization of the Tax structure to prevent cascading and spill over effect of taxation. A shift to MODVAT (Modified Value Added Tax) to encourage Tiering through consolidation and lean management systems.

m) Boost to exports by building relationships with Tier I manufacturer and incentivising investment and technology transfer from them. Encourage OEM’s to bring in their Tier I suppliers. Focus on Tier 2 and Tier 3 products where India has cost advantages and slowly move to Tier I products.

n) Curb on sale of fake and non-genuine parts to benefit legitimate manufacturers allowing them to invest more on technology, Research and Development. Effective law exists on this but its implementation needs to be improved.

o) Heavy duty on second-hand car imports to protect industry. Government must continue its policy of restriction on the entry of second-hand vehicles to the country, which will wreck havoc with the local industry that is developing painstakingly over the years and only which will be beneficial to the economy.

p) With the expansion of product range and profile there is a need for a reclassification of the industry and its products. Differential taxation on the basis of this new classification is expected to yield good dividends to the industry while at the same time maintaining the principles of equitability of tax structure.
8) Geographical Sales Analysis

a) Since a decrease in regional sales concentration leads to a total increase in car sales, industry must attempt to tap these new areas for further boost in sales of the industry.

b) Industry must attempt to explore new markets

c) Government must support this effort by higher impetus on development in these regions.