Chapter 1

Introduction

1.1 INDIAN AUTOMOBILE INDUSTRY

As per report by AT Kearney (2014) on the Contribution of automobile sector to technology and creation of value, the automobile sector is an important pillar of the world economy, an important driver of macro-economic development and technological advancement in developed and developing countries, spread across many related industries. The economy of a nation is well known by its transport system. For rapid and instant growth in economy, a well networked and well developed system of transportation is required. As the transport network of India is growing at a fast pace, the automobile industry in India has evolved in to a critical infrastructure and a fundamental need for common people. The automobile sector has powerful forward and backward linkages to the country’s economy and hence offers employment opportunities to huge section of population.

Table 1.1 : Backward & Forward linkages of Automobile Sector

<table>
<thead>
<tr>
<th>Backward Linkages</th>
<th>Core Automobile</th>
<th>Forward Linkages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>Passenger vehicles</td>
<td>Finance &amp; Insurance</td>
</tr>
<tr>
<td>Steel</td>
<td>Cargo vehicles</td>
<td>After-market (Services &amp; Parts)</td>
</tr>
<tr>
<td>Fuel</td>
<td>Two wheelers</td>
<td>Used vehicle market</td>
</tr>
<tr>
<td>Metals (Primary and</td>
<td>Three wheelers (Passenger &amp; Cargo)</td>
<td>Car hires &amp; rental</td>
</tr>
<tr>
<td>fabricated)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plastic, Rubber &amp; Glass</td>
<td>Component manufacturing</td>
<td>Fuel supply</td>
</tr>
<tr>
<td>Electronics</td>
<td></td>
<td>Advertising</td>
</tr>
</tbody>
</table>

Thus the role of automobile sector is important in the economy of India. The growth in the demand for two wheelers and cars, due to the increase in the income levels
and aspirational new middle class, is the main growth driver of the automobile sector in the country.

1.2 AUTO INDUSTRY’S CONTRIBUTION TO ECONOMY

As per Goetz Klink et al (2014), the auto industry contributes in three ways, viz, Government revenue, Economic growth and People development.

Government revenue: The automobile sector enables significant tax revenues from vehicle sales, usage related taxes, direct taxes on income and other business taxes. In Japan, the auto related taxes totaled $92 billion per year, which is about 10% of total tax incomes (as per Japan Automobile Manufacturers Association). In USA, auto sector earns $145 billion every year as tax, which is about 13% of state tax incomes and about 2% of federal tax incomes. In India, taxes collected from sales of automobiles, related parts and fuel contributed to 7% of central government tax revenues (www.Indiabudget.nic.in). In addition to this, auto manufacturers generate foreign exchange earnings, by international exports, which is a boon to the Government finances.

Economic growth: The automobile sector is crucial to world economic growth. Worldwide, automobiles contribute about 3% of all GDP output, while the share is even more in fast growing markets like China and India, at 7%. There is also a significant correlation between foreign direct investment (FDI) inflows and automotive production.
Automotive FDI also brings in investment in allied industries and can lead eventually to
the growth of a larger automotive eco system.

People Development: Automobiles enhance quality of life, through increased
mobility options, safety and comfort. The sector contributes to creation of jobs and skill
development. Its many forward and backward linkages bring direct and indirect job
opportunities. Due to the complex nature of the sector, employees learn highly valuable
skills in R&D, design, manufacturing, supply chain and sales & marketing. Given this
background, automotive is considered as a training ground for gaining technical and
managerial expertise, which is useful in many other industries also.

1.3 HISTORY OF AUTOMOBILES IN INDIA

As per the report on Automotive sector in India by Indian Brand Equity
Foundation (www.ibef.org, retrieved on 31 Jan’16), the first Automobile on an Indian
road was in 1897. During 1930s, very few automobiles were imported. A rudimentary
automobile sector emerged in India during 1940s, when Hindustan Motors was
inaugurated in 1942 and Premier Automobiles in 1944, assembling Chrysler, Fiat, and
Dodge vehicles. Mahindra & Mahindra was started in 1945 and they commenced the
assembly of utility vehicles. After India gained independence in 1947, the Government of
India and private entrepreneurs put in efforts to develop a robust automobile component
manufacturing facility to cater to the growing automotive needs. During 1953, a new
import substitution program was introduced and import of fully built up cars were
restricted.

1.3.1 PERIOD 1947-1970

The Autocar Professional India, a leading auto magazine based in Mumbai, in its
research article “The rise of the automobile in free India”, elaborates the sequential
efforts in Free India to promote automobile industry, in a planned manner.

During the year 1952, Government of India appointed the first ever Tariff
commission and one of the purposes was to formalize a clear plan for localisation of the
automobile sector in India. This was primarily to put a check on excessive production of vehicles, which would otherwise block the investments and affect price control. Next year, the tariff commission submitted its report, which categorized the manufacturing companies as per their infrastructure at the time, with licensed capacity to produce a specified quantity of vehicles with limited increase in capacity allowed as per the future demand. The recommendations of tariff commission were converted into new policy, thereby eliminating manufacturers with only imports and the ones with no Indian partner. Subsequent to the tariff commission implementation, Ford, General Motors, and Rootes Group, who had assembly facilities in India decided to exit. The tariff commission, along with similar restrictions applicable to other industries also, was known as the license raj and this was later proved to be a major disadvantage for the automobile sector in India, as the bureaucratic red tape ended up making demand outstripping supply with year long waiting period for scooters, cars and motorcycles. However, the growth was relatively slow during 1950s and 1960s, due to nationalisation and the license raj, which restricted the growth of the private entrepreneurship in India.

1.3.2 PERIOD 1970 – 1983

The 1970s saw some potential to grow as many of the license agreements for partnership came to an end, but with the option to continue manufacturing with new branding. Cars were still considered as a privilege and utility vehicles were primarily used by government departments and in some rural areas. In commercial vehicle category, some new developments happened during this period to cater to the increased cargo movement. The two-wheeler category did not change much, except for increased sales in city areas, among middle income population. But, higher emphasis was given to farm tractors as the country was beginning to launch a new green revolution. More imports were allowed to cater to the increased demand.

After 1970, with import restrictions on the vehicles, the automotive sector begun to grow in organic way. But, the growth was largely contributed by scooters. Tractors and commercial vehicles. Cars were still considered a luxury item. In 1970’s, price controls were finally removed, bringing in a competitive element into the automobile industry. By 1980,, the car market was still dominated by Hindustan Motors and Premier
Automobiles, who produced outdated products in fairly small numbers. During 80’s, new competitors began to arrive in the scenario. The middle east Asian oil crisis made us understand the need to redesign to suitably fit diesel engines on commercial vehicles. Till early 70’s, Mahindra Jeeps were on Petrol and Premier commercial vehicles had petrol model options. The army too had trucks with petrol engines.

1.3.3 PERIOD 1984-1992

As per Bhaktavatsala (1993), late 70’s and early 80’s did not see new vehicles. We continued with very primitive designs, forcing the government to allow more manufacturers into the market. In 1986, in order to promote the automobile sector, the government set up the Delhi Auto Expo. The 1986 Auto Expo was a showcase event for the Indian automotive sector and how the sector was absorbing newer upgraded technologies, promoting indigenous research and development and adopting these upgraded technologies for the varied conditions in different parts of this vast country.

1.3.4 POST 1992 LIBERALIZATION

In 90’s, multi national automakers such as Suzuki, Honda, Toyota and Hyundai entered the Indian market, thereby furthering the presence of a robust automobile sector. The most successful of these new entities is Maruti Suzuki, which was the result of the effects of government initiatives to promote the automotive sector during 80’s. As India began to embark on liberalization to change policies for automobile market in 1991, many international manufacturers also initiated joint ventures with established Indian firms. The range of options available to the customer started to multiply, whereas earlier, there used to be only one option in each category. By the year 2000, there were 12 large automobile companies in the market and almost all of them were subsidiaries of international giants.

As per Gupta (2012), starting 2000, several significant policy changes like removal of quantitative restrictions and 100% foreign direct investment through automatic route were introduced in India. “Made in India” vehicles were launched in the market and exports were given a significant push. Automobile companies entered into collaboration with retail finance firms to provide financing and insurance facilities to
customers. New globally proven manufacturing systems were introduced and adopted to improve quality and capacity utilization, apart from better environmental management. In the year 2003, a core group on automotive R&D (CAR) was set up to identify new thrust areas for automotive research and development in the country.

Now, the automotive industry is one of the fast growing sectors in the country since 2000. As a leader in process and technology in manufacturing, the sector has been identified as one of the drivers of economic growth by successive Governments. During the past decade, well planned and conscious efforts were made to offer a new look to automotive policy for realizing the full potential of the sector for the economy. The Society of Indian Automobile Manufacturers (SIAM) is the “apex body of all automobile manufacturers” and they are constantly engaging with the Government about improving the technology standards of the Indian Automobiles in phased manner, on the basis of very aggressive emission norms and other safety standards. Due to the consistent efforts of Government and SIAM, today’s automobiles in India are highly qualitative and safe. India Automobiles adhere to BS3 norms, which are more stringent than Euro norms.

Two wheelers are the most popular and highly sought after mode of automobile in the country. Two wheelers contribute to 81% of total automobile sales in India. Also, two wheeler sector contributes to 2% of India’s GDP. The per capita GDP is on the rise in India, contributing to the growth of two wheelers.

1.4 INDUSTRY PENETRATION & POTENTIAL

Another factor, which contributes to the growth of two wheelers in India is low penetration (2009-10). As per report on distribution of households by income categories (www.mepp.umd.edu/casey-dugagan-practicum-final-report.pdf, accessed on 18-2-16), India has large unpenetrated households as far as two wheelers are concerned.
Aggressive and tactical marketing by the manufacturers, using retail finance options have played an important role in enhancing the affordability of customers in automobile sector particularly from the population in the middle income category. As per NCAER report on the national survey of household income and expenditure (2011) (www.ncaer.org, retrieved on 30-1-16), with rising cost of living and increasing inflation, it has become very difficult for middle income groups to save money for the full cost of a vehicle. This process of saving full money would take very long period and is filled with uncertainty. The auto finance firms have aggressively been promoting initial low down payment offers and competitive interest schemes, bundled with long loan tenure. Such financial enablers have helped the automobile industry to penetrate to wider customer segment and ensured increased affordability. For vast majority of the people, buying two wheeler is the second most expensive and important decision next only to buying a home. First time buyers of two wheeler provide them the chance to create positive image of brand, which could be reflected in upcoming years, when the customers would make replacement purchasing of two wheeler.

The concept of buying behavior is of major significance in marketing and has developed over long period of time. It is essential to know the buying behaviour of customers as it plays very important role, while buying respective products. Human needs
are changing daily and expectations are growing due to social and peer pressure. The two wheeler is not an exception to this behavior. Satisfied customers are most probable to resort to repeat buying in such instances. Highly satisfied customers would communicate their satisfaction stories and recommend others through positive word of mouth. Highly satisfied customers are less receptive to the offerings of competitors. In practical terms, organizations need repeated buying primarily because such behavior in customers can evidently reveal the preference of customer for a product or brand. The behavior of consumer is not only the study of what people consume but also how often, where and under what circumstances. The factors like perception, learning, personality and attitude on one side and price, product, physical attributes, societal and advertising on the other side, impact consumers’ behavior. Therefore marketer has to evaluate these elements for better understanding of consumer. The reactions of consumer to marketing are always passive and low key. While buying a two wheeler, customers might give importance to factors like mileage, price, performance, maintenance, ease of riding, style, etc. While making a buying decision, friends and relatives play an essential role.

India has now become one of the major global players in the automotive industry. During the year 2006-07, the Indian Automobile Industry manufactured over two million four wheelers and nine million two wheelers as per SIAM (www.siamindia.com, accessed on 12-9-15). As per SIAM, “he four wheelers include all passenger cars, light, medium and heavy commercial vehicles, utility vehicles, etc. The two wheelers include mopeds, motor-cycles, and scooters”. India is ranked second in the global two-wheeler market. India is also the fourth largest commercial vehicle market in the world. India is ranked eleventh in the international passenger car category. India is ranked fifth in the total number of buses and trucks produced and sold in the world. It is expected that the Automotive Industry in the country would be the seventh largest within the year 2016-17. The total business turnover of automobile sector in India is Rs.4,00,000 Cr (Approx. USD 63 billion) (as per SIAM report)
1.5 INDUSTRY COMPOSITION

The industry composition is as given below (as per www.siamindia.com assessed on 27-8-15)

Table 1.3 : Industry composition

<table>
<thead>
<tr>
<th>Domestic Market Share for 2014-15</th>
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<tbody>
<tr>
<td>Passenger Vehicles (Car, Van, Bus, etc)</td>
<td>13%</td>
</tr>
<tr>
<td>Commercial vehicles (Trucks, LCV, etc)</td>
<td>3%</td>
</tr>
<tr>
<td>Three Wheelers (Passenger &amp; Cargo)</td>
<td>3%</td>
</tr>
<tr>
<td>Two Wheelers</td>
<td>81%</td>
</tr>
</tbody>
</table>

The production of automobiles in India has been growing steadily. Between 2009-10 and 2014-15, the total automobile production in India has grown by over 66%. Within various categories of automobiles, the two wheeler industry has the highest growth of 75% during the same period.

Table 1.4: Automobile production in India in last six years (www.siamindia.com, accessed on 27-8-15)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger Vehicles</td>
<td>23,57,411</td>
<td>29,82,772</td>
<td>31,46,069</td>
<td>32,31,058</td>
<td>30,87,973</td>
<td>32,20,172</td>
</tr>
<tr>
<td>Commercial Vehicles</td>
<td>5,67,556</td>
<td>7,60,735</td>
<td>9,29,136</td>
<td>8,32,649</td>
<td>6,99,035</td>
<td>6,97,083</td>
</tr>
<tr>
<td>Three Wheelers</td>
<td>6,19,194</td>
<td>7,99,553</td>
<td>8,79,289</td>
<td>8,39,748</td>
<td>8,30,108</td>
<td>9,49,021</td>
</tr>
<tr>
<td>Two Wheelers</td>
<td>1,05,12,903</td>
<td>1,33,49,349</td>
<td>1,54,27,532</td>
<td>1,57,44,156</td>
<td>1,68,83,049</td>
<td>1,84,99,970</td>
</tr>
<tr>
<td>Grand Total</td>
<td>1,40,57,064</td>
<td>1,78,92,409</td>
<td>2,03,82,026</td>
<td>2,06,47,611</td>
<td>2,15,00,165</td>
<td>2,33,66,246</td>
</tr>
</tbody>
</table>

The above production data is for both domestic sales and export sales. However, when we consider at the domestic sales and export sales data separately, the share of
domestic sales is at 82% in year 2014-15, which is substantial. However, the share of domestic sales has decreased from 85% in 2009-10 to 82% in 2014-15, as compared to export sale (www.siamindia.com). Still, the domestic sale is dominant in automobile industry, growing by 61% during the same period.

1.5.1 AUTOMOBILES – DOMESTIC SALES

The two wheelers sales registered a growth of 8.09% during the period April-March 2015 over April-March 2014. Within the Two Wheelers segment, Mopeds, Motorcycles and Scooters grew by 4.51%, 2.5% and 25.06% respectively in April-March 2015 over April-March 2014.
1.5.2 AUTOMOBILES – EXPORT SALES

Table 1.6: Automobile Export sales in last six years

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<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Passenger Vehicles</td>
<td>4,46,145</td>
<td>4,44,326</td>
<td>5,08,783</td>
<td>5,59,414</td>
<td>5,96,142</td>
<td>6,22,470</td>
</tr>
<tr>
<td>Commercial Vehicle</td>
<td>45,009</td>
<td>74,043</td>
<td>92,258</td>
<td>80,027</td>
<td>77,050</td>
<td>85,782</td>
</tr>
<tr>
<td>Three Wheelers</td>
<td>1,73,214</td>
<td>2,69,968</td>
<td>3,61,753</td>
<td>3,03,088</td>
<td>3,53,392</td>
<td>4,07,957</td>
</tr>
<tr>
<td>Two Wheelers</td>
<td>11,40,058</td>
<td>15,31,619</td>
<td>19,75,111</td>
<td>19,56,378</td>
<td>20,84,000</td>
<td>24,57,597</td>
</tr>
<tr>
<td>Grand Total</td>
<td>18,04,426</td>
<td>23,19,956</td>
<td>29,37,905</td>
<td>28,98,907</td>
<td>31,10,584</td>
<td>35,73,806</td>
</tr>
</tbody>
</table>

(www.siamindia.com accessed on 27-8-15)

As per the Society of Indian Automobile Manufacturers annual report (www.siamindia.com), “the Indian two-wheeler market, which is the second largest in the world at 14 million units, has grown at a volume CAGR of 14% over the last five years (CY 2008-13). This track record of healthy growth has been much better than that of the global two wheeler industry as a whole that grew at a relatively slower rate of 3% during this period. The key growth drivers for India’s domestic two wheeler industry have been its large population (fostering strong consumption pattern), favorable demographic profile, moderate penetration levels (in relation to several other developing markets), under developed public transport system, growing urbanization and strong replacement demand. Although, over the last two years, domestic two wheeler demand has slowed down, reflected in growth of 2.9% in 2013-14 and 6% in 2014-15, the overall performance has remained much better than some of the other automobile segments, namely passenger vehicles and commercial vehicles, which have experienced negative growth. However, we expect two wheeler demand growth to accelerate more in the near term as current penetration level in the addressable income segment runs is still small”.

A two wheeler (motorcycle, bike, etc) is a motor vehicle with two wheels. Each two wheeler design differs to suit a range of different needs like long distance travel, cruising, racing, commuting, and off-road riding. Two wheelers are mainly a luxury vehicle in the developed world, where the two wheelers are used mostly for outdoor entertainment, as a lifestyle product or as a symbol of personal identity. In developing
countries, two wheelers are primarily utilitarian due to affordable prices and better fuel economy. Among all the two wheelers in the world, over 58% are in the Asia Pacific region and Southern and Eastern Asia regions, outside of Japan. There are three types of two wheelers: street, off-road, and dual purpose. Within these types, there are many sub-types of two wheelers for specific purposes. Street bikes include cruiser bikes, sport bikes, scooters and mopeds. Off-road motorcycles include many types designed for dirt racing such as motocross and are illegal to use on streets in many countries. Dual purpose bikes are enabled to go off-road and also include features, which make them legal and comfortable on the street also. Each specification offers either specific advantage or specific capability for the rider.

India is predominantly a street bike market. The people use two wheeler for utilitarian purposes. The two wheelers are primarily used for commuting from one place to another, either for personal trips or work purposes. However, there is a small segment of two wheeler users, who use the vehicle for carrying loads. Those who use two wheelers for load carrying purposes would be generally small traders and businessmen.

1.6 MAJOR MANUFACTURERS IN INDIA

The major manufacturers in India and their share are given below.

Table 1.7: List of key Manufacturers in India (Source: The Society of Indian Automobile Manufacturers website www.siamindia.com, on 17-8-15)

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Market share (2014-15)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hero MotoCorp Ltd</td>
<td>41%</td>
</tr>
<tr>
<td>Honda Motorcycles &amp; Scooters Ltd</td>
<td>26%</td>
</tr>
<tr>
<td>TVS Motor Company ltd</td>
<td>14%</td>
</tr>
<tr>
<td>Bajaj Auto Ltd</td>
<td>12%</td>
</tr>
<tr>
<td>Yamaha India Ltd</td>
<td>3%</td>
</tr>
<tr>
<td>Others</td>
<td>4%</td>
</tr>
</tbody>
</table>
1.6.1 **HERO MOTOCORP LTD**

Hero MotoCorp Ltd, was earlier known as Hero Honda. Hero Honda started its operations in 1984 as a collaboration between Hero Cycles and Honda of Japan. The company launched motorcycles that were popular in India for their fuel economy and low prices. A very popular advertising campaign with the slogan “Fill it-Shut it-Forget it” that promoted the motorcycle’s fuel efficiency, helped the company grow at exponentially. It has maintained the global industry leadership to date. In 2010, the joint venture between Hero and Honda was not renewed and they went separate ways. This has opened up opportunities for aggressive expansion in overseas markets for Hero MotoCorp.

Hero MotoCorp has four manufacturing facilities, with a production capacity of 7.5 million two wheelers per year. They have a sales and service network with over 6000 dealerships and service points all over India. The company has a stated aim of “achieving revenues of $10 billion and volumes of 10 million two wheelers by 2016-17. They also hope to achieve 10% of their revenues from international markets”.

1.6.2 **HONDA MOTORCYCLES AND SCOOTERS INDIA LTD**

Honda Motorcycle & Scooter India Pvt Ltd (HMSI) is the 100% subsidiary company of Japanese major, Honda Motor Company, who are the world’s no.1 two wheeler company. HMSI started operations in India in May 2001, after separation from Hero Honda. In the 15 years since inception, Honda has grown to become the second largest two wheeler company in India with over 27 million vehicles on road. The production capacity is 4.8 million two wheelers per annum, from three manufacturing facilities. HMSI has sales & service network of over 4500, with aim to cross 5300 outlets by 2017.

1.6.3 **TVS MOTOR COMPANY LTD**

Started as TVS Suzuki ltd, a joint venture between Sundaram Clayton Ltd and Suzuki Motor Corporation, Japan, in year 1984, the company grew to be the third largest two wheeler company in India. The joint venture was terminated in 2001 and both groups
went separate. TVS Motor Company has four manufacturing facilities (three in India and one in Indonesia), with installed capacity of over 3.2 million two wheelers per annum. The company has over 6000 outlets for sales & service, across India. The company was awarded the Deming Application Prize in 2002 and has got various awards for indigenously designed products.

1.6.4 BAJAJ AUTO LTD

Bajaj Auto Ltd was founded in 1941 as importer of automobiles and later started manufacturing scooters under license permit raj. Their scooters used to fetch a premium with large waiting periods. Presently, they focus only on motorcycles and not all two wheelers. They have three manufacturing facilities with installed capacity of over 4 million per annum. The company has over 5000 outlets for sales & service across India. They have large export market and their export share is 40% of their overall sales.

1.7 STATEMENT OF THE PROBLEM

An organization will not be able to reach out to the entire potential customer base in a very large market like two wheelers. The target customers’ population is too huge, geographically very highly spread and different in their needs. An organization is required to identify the segments of market, which it has to reach out and communicate effectively. Target marketing or niche marketing are key strategies adopted by many organizations to reach out to identified target customers. Here, sellers categorize major segments of market, target at specific segments and evolve marketing programs and products tailored to each of these identified segments. Instead of distributing their effort of marketing thin, they would focus on buyers, whose needs they have the highest chance of fulfilling. A market segment is the one, which comprises of a customer’s group who share same set of wants and needs. The task of marketer is to identify and recognize the segments and determine which one to target at. The organization can create very specific, fine-tuned service or product offering and cost it specifically for the identified segment. The organization can easily choose the best communication and distribution channels.
and it will also have a clearer picture and knowledge of competitive actions in these identified specific segments.

According to J Power Associates customer retention study (2012), there are two types of potential buyers of two wheelers. They are

1. First time buyers, who buy a two wheeler for first time in life
2. Replacement buyers, who buy a subsequent two wheeler, after either retaining or disposing off their earlier vehicle

The estimates of industry indicate that the average two wheeler ownership cycle is now reduced to less than five years. As the industry has sold over 8 crore two wheelers in Indian market since the year 2000, the total replacement demand turns out to a fairly huge number. In addition to this, there is the consistent growth in sales to first time purchasers in recent years, driven specifically by sales to rural market, which means that the replacement opportunity would only grow in future. From the perspective of customer, although the replacement needs new capital investment, the opportunity of upgrading to a latest two wheeler, having better features, performance and much attractive styling complimented with additional disposable income are expected to be major ingredients feeding the demand for replacement.

Fig 1.2 : Francis Kanoi Customer segmentation study (2014)
As per Francis Kanoi customer segmentation study (2014), during the last 16 years (since 1997), the share of first time buyers and replacement buyers have been almost similar. This means that there are as many first time buyers as replacement buyers. While the first time buyers will rely on word of mouth like friends, relatives, mechanics, internet and other means, the replacement buyers will rely primarily on their own experience of owning the earlier vehicle. By owning a vehicle already, they have gained experience and exposure by virtue of using the vehicle. Hence, this prior knowledge will definitely play a major role.

This means that on a total sales of 160,04,581 vehicles sold during year 2014-15 in India (as per www.siamindia.com), about 78,42,245 two wheelers were bought by replacement buyers. This is a huge potential, which cannot be ignored by any manufacturer. When the manufacturers do sales promotion, they work on two levels. First level is product marketing, wherein they try and promote key features / benefits of their products. This type of promotion is generic in nature and will address every potential customer. At the second level, the manufacturer try to promote sales enablers like hire purchase schemes, discount schemes, gift schemes, exchange schemes, etc. Out of all these promotional schemes, the exchange schemes are specifically directed at the potential replacement buyers, who already own a vehicle and who look to dispose their old vehicle.

For instance, a family holiday includes lodging, air ticket booking, etc. One has the choice to either book both together from the same source, or book from different sources. The travel agent, who provides both services, has the opportunity to bundle both services together and present attractively. Similarly, for a repeat customer, a new two wheeler buying is always made in conjunction with old two wheeler trade in. In such instances, the marketers have different choices in how to price and package the complete transaction. For instance, a two wheeler dealer has the choice to manage the new vehicle purchase and the old vehicle trade-in as separate transactions with varied tags of price or as a combined transaction where the overall transactions is presented under a single price tag. The way in which the overall transaction is priced can essentially influence buying
decisions. With better understanding of customers, organizations can determine the actions needed to meet the needs of customers in such instances.

The promotional schemes with exchange as an offer are common across all categories of products, especially consumer electronics, household kitchen products, and automobiles. In most of the cases of consumer electronics and household kitchen products, the old exchanged products are bought back by the manufacturer dealers for a price and scrapped. The difference in the price and the scrap value is treated as discount. However, for automobiles, the old vehicles are registered and have an identity. This identity is very important for the statutory purposes. Hence, the old vehicle cannot be just sold to anybody and forget. This identity may be misused by anti-social elements, and the consequences of that will be very serious. For example, if the old vehicle falls into the hands of smugglers, and in case the vehicle is caught while using for smuggling, the vehicle owners will be liable for prosecution. Therefore, how the old vehicles are exchanged, through what channel and what documentation is done to close the deal, are important questions, for which we should have an answer, before we embark on such deal.

White (2013) says that the following are four options for those who intend to exchange their old vehicle for a new vehicle.

1. **Retain the old vehicle for use by other family members**

   (Set of customers who would retain the old vehicle for using within the family as a second vehicle. This is common in large joint families)

2. **Sell the old vehicle to a friend or relative, at a mutually agreed terms**

   (In this case, the customers would try to offer the old vehicle to their known friends or relatives. They negotiate the price amongst themselves and arrive at a consensus. This process is easier and involves no hassles.)
3. Sell to a broker / consultant, who deals with this business

(Majority of the customers who want to sell their old vehicles, contact the brokers / consultants, who specialise in dealing with old vehicles. Though they are less trustworthy, the customers have no others means of selling their old vehicles).

4. Sell to authorised dealers of new vehicle, as down-payment

(When authorised dealers of well-known manufacturers organise special programs to enable exchange of old vehicles, in lieu of buying their new vehicles, a set of customers prefer this option as the process is easy)

1.8 CHANNELS OF SELLING

The scholar conducted a focus group discussion with a set of customers, who exchanged their vehicles thro’ brokers / consultants, authorised dealers and also representative of manufacturers, as part of the pilot for this study. The objective of the focus group discussion was to understand the role of each of these channels.

1.8.1 ROLE OF BROKER / CONSULTANT

- They are highly unorganised, working at local level
- They run this business as ‘commission agents’ and hence don’t invoice. This means that there won’t be any responsibility on them, after the deal is over
- Big brokers have contacts with sub brokers in nearby small towns for distribution of used vehicle
- Few of these brokers do multi-brand new vehicles business also, but as a separate business.
1.8.2 ROLE OF MANUFACTURERS

- Few car manufacturers have entered this exchange business formally, thro’ separate divisions in India. For example, Maruti Suzuki has the division by name “True Value” and Ford Motor has the division by name ‘Ford Assured’.
- Two wheeler manufacturers don’t have formal business process to tap this segment of customers, even though there are a few local initiatives.
- However, the business model for cars and two wheelers remain the same, as the process is similar.

1.9 ADVANTAGES OF DEALING WITH MANUFACTURER DEALERS

1.9.1 BENEFIT TO CUSTOMER

- Customer gets the assurance on the correctness of documentation process
- Transparency and convenience
- Ease of selling used vehicles

1.9.2 BENEFIT TO MANUFACTURER

- Opportunity to convert competitor’s customers
- Retain the existing base of customers
- Today’s used vehicle customer is tomorrow’s new vehicle customer

1.9.3 BENEFIT TO DEALERS

- Source of additional revenue
- Increased new vehicle sales
- Better reach in the market

As there are no fixed price tags for old vehicles, the price quoted by various stake holders vary according to various factors like condition of the vehicle, year of
manufacturing of the vehicle, model and colour of the vehicle, special accessories fitted in the vehicle, usage distance (Kms), type of owner (single, etc). As these factors are highly intangible, it will be difficult to arrive at a formula to fix the price of an old vehicle. However, the consultants / brokers, who deal with second hand vehicles are fairly knowledgeable on these factors and arrive at a fair price. However, as these prices are many times not explainable, the seller will always have some doubt in mind, in terms of correctness of the price. This is more so, due to informal nature of these consultants / brokers, as these consultants are seen to be untrustworthy.

However, when manufacturers or their authorised dealers organise exchange programs, the manufacturer brand is in the foreground and hence, the trust on the brand gains importance. Hence, the customers prefer to sell their old vehicle thro’ the authorised dealers of manufacturers. Even in this case, there won’t be any fixed price tags and hence, the price expectation on the old vehicle will always be higher that what is being quoted. However, customers will be willing to accept the price, after some give & take negotiation.

Generally, the customers will always be in dilemma as to through whom to sell the old vehicle, so that they gain the maximum, both in terms of price and transparent deal. The manufacturer dealers do not run the promotional schemes on exchange throughout the year. They run such activities on special occasions like festival season, Aadi / Ashada, season, etc. This leads the customer to reach out to both informal channels like consultants / brokers. However, there are many customers who wait for special schemes from manufacturer dealers, so that they get a better package deal.
1.10 AIMS AND OBJECTIVES OF THE STUDY

1.10.1 AIM

The main aim of the study is to analyze the factors which influence the decision making process for the repeat buyers for two wheelers.

1.10.2 RESEARCH QUESTIONS

- What are the factors that trigger selection of channel, while customers sell their two wheelers in the second hand market?
- What are the factors that trigger the price determination, while customers sell their two wheelers in the second hand market?
- What is the degree of subjectivity among customers, while customers sell their two wheelers in the second hand market? Is subjectivity a barrier?
- What is the role of demographics in influencing the channel selection and price determination?

1.10.3 RESEARCH HYPOTHESES

The following are the set of hypotheses to be tested.

H1: There is a relationship between manifested variables and latents, which measures factors for choosing a particular channel.

H2: There is a relationship between manifested variables and latents, which measures factors of price determination

H3: There is a relationship between factors determining choice of channel and factors determining price on actual channel of vehicle sales

H4: There is significant difference between factors of channel choice, based on demographics.
H4a: There is significant difference on factors of channel choice between male and female.

H4b: There is significant difference on factors of channel choice between different age groups.

H4c: There is significant difference on factors of channel choice between different occupations.

H4d: There is significant difference on factors channel choice between different levels of income.

H4e: There is significant difference on factors of channel choice between different levels of education.

H4f: There is significant difference on factors of channel choice between different brands being used.

H5: There is significant difference between factors of price determination, based on demographics.

H5a: There is significant difference on factors determining the price between male and female.

H5b: There is significant difference on factors determining the price between different age groups.

H5c: There is significant difference on factors determining the price between different occupations.

H5d: There is significant difference on factors determining the price between different levels of income.

H5e: There is significant difference on factors determining the price between different levels of education.
H5f: There is significant difference on factors determining the price between different brands being used.

H6: There is significant difference on perception before and after introducing the customers to subjective norms over the choice of channel.

1.11 LIMITATIONS OF THE STUDY

- This study is limited to Bangalore only.
- As the study is specifically done on two wheelers, this can’t be generalized for other automobiles.
- Though there are many studies on brand loyalty and customer buying behavior of automobiles in India, there are not many relevant literature on the exchange process, which is unique.

1.12 SIGNIFICANCE OF THE STUDY

This study will be an essential attempt in determining the factors which influence the decision making process for the repeat buyers for two wheelers. This study will provide proper understanding of the purchasing behavior of consumer, which will help the marketer to identify the specific segment in the market. This study will be useful for new and existing automobile manufacturers in India to understand the expectations of repeat customers and determine their offerings in the market. This study makes an attempt to recognize the changes in consumer behavior, when the factors that influence purchase decision of exchange customers vary, so that suitable business strategy may be adopted by manufacturers to promote their products for repeat purchase of customers.

1.13 STRUCTURE OF THE THESIS

This thesis is made up of the following 5 chapters.

Chapter 1- Introduction: This chapter details the introduction and background to the initial stages of the research work, the problem statement and a broad overview about the scope of research, the formulation of the objectives and hypotheses, and also, the significance and limitations of the study.
Chapter 2 – Literature Review: This chapter details and reviews relevant literature on consumer buying behavior, selling strategies adopted by organizations and models proposed behind all variables.

Chapter 3 – Research Methodology and Design: This chapter elaborates the research design and methodology in detail. It provides the process as adopted by researcher so as to capture responses to the research questions formulated at an early stage of the research. In addition, the chapter covers inputs on setting of hypotheses, measures adopted, collection of data and overview of statistical tools deployed.

Chapter 4 – Data analysis: This chapter gives detailed analysis of the primary data collected.

Chapter 5 – Findings, discussions & conclusions: This chapter evaluates the significant findings from the study, the managerial implications and conclusions, arrived thereof.

Bibliography: In addition to the above, this thesis has bibliography, acknowledging the sources that were used in collecting the secondary data for the research and also an appendix that has tools like questionnaire that was used in the collecting primary data required for the research.