CHAPTER 1

INTRODUCTION

For a long time after the 1991 reforms, Indian GDP growth averaged only 6% or so, not much higher than in the 1980s. The cumulative effects of reform finally reached critical mass, and hence exploded into much faster growth in the last few years. Because of this, Goldman Sachs claimed that India could sustain 8% growth for over a decade (Ankalesaria Aiyar, 2007).

India's economy has been performing very well in recent years, growing 9.2% in 2007 and 9.6% in 2006. Growth had been supported by market reforms, huge inflows of FDI, rising foreign exchange reserves, both IT and real estate boom, and a flourishing capital market. Automotive sector has been one of the major contributor of GDP growth.

India's year-wise GDP Growth is shown in Figure 1.1.

Figure 1.1 Indian GDP Growth

![GDP Growth Chart]

Source: ACMA (2008)
Where does India stand in the global economy, the rather impressive growth it has achieved in recent years notwithstanding? Has it reached the level of integration that it needs with the global economy so as to further its own growth? As of now, its impact on the world economy is very limited and, to some extent, vice versa.

In the case of India, it accounts for an insignificant component of global GDP in comparison with the size of its population. Again in the matter of exports, while the rapid increase in the share of China is impressive, its share is still below 10 percent (Mathew, 2006).

Figure 1.2 shows India’s growth of foreign trade. India’s export has been growing steadily over the years. India’s import has also been growing. India is a net importer of Foreign Trade.

**Figure 1.2: Growth of Indian Foreign Trade (USD Billion)**

"No developing country in the world has progressed without exports. We can cite the examples of Mexico, Brazil, Taiwan and Thailand to prove this point. The
only solution for India lies in the exports. From the existing level of 14-15 percent of GDP, Indian exports have to go up. China’s exports are at 30 percent of GDP, even as Mexico, Taiwan and Thailand have similar export figures. All these countries have enhanced the contribution of exports to their GDP” (Narayananurthy, 2006).

Where does India go from here? What is the role of Indian Auto Component Industry when export is the focus area for the country? What are the Overseas Marketing Strategies of Indian Auto Component Industry which will facilitate its role? We find answer to this through this study.

1.1 CURRENT STATUS AND OUTLOOK OF INDIAN AUTO COMPONENT INDUSTRY

Exports of auto components have risen from USD 330 million in 1997-98 to USD 3615 million in 2007-08. Refer Table 1.1. The sector played an important role in shaping India as a globally competitive manufacturing destination and is one of the country’s flagship industries next to IT.

<table>
<thead>
<tr>
<th>Table 1.1: Indian Auto Component Industry Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>03-04</td>
</tr>
<tr>
<td>Turn over (USD million)</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>Exports (USD million)</td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>Investment (USD million)</td>
</tr>
<tr>
<td>(USD million) ACMA Auto Component Industry Statistics</td>
</tr>
</tbody>
</table>

Source: ACMA (2009)

ACMA-McKinsey Report (2005) finds that India-based automotive components manufacturing has the potential to grow 500 per cent from its current level to
revenues of USD 33-40 billion by 2015, including USD 20-25 billion in exports and USD 13-15 billion in domestic consumption and indirect exports. In the global automotive industry, sourcing of automotive components from Low Cost Countries or Leading Competitive Countries (LCCs) such as Brazil, China, India and Thailand is likely to accelerate because of the increasing cost pressures on OEMs in developed countries, such as those in North America and Western Europe.

The world is experiencing recession from later part of year 2008 and this may be a long drawn one.

The Auto-Component Industry is deeply concerned about its immediate future growth prospects as it faces the onslaught of deep slowdown.

In the domestic market, the crippling liquidity crunch has slowed down vehicle demand, especially in the commercial vehicle industry.

On the export front, global outsourcing to large traditional markets like US has seen a reduction of up to 30-40% in many cases. The SMEs are the worst affected as they cannot withstand such severe shocks. The overall exports growth of the auto-component industry has slumped to a meager 5.5% during the year 2008-09 as compared to a 31.6% CAGR over the last 5 years.

The US auto industry is slated to be the worst hit as automobile sales, consisting of cars, SUVs and light trucks, have fallen to 13.3 million units in 2008, down 17.7 percent from 16.2 million in 2007 contributing to what is expected to be the worst year since 1980 for the global automotive industry.

On the other hand, Western European auto sales have also declined to 15.4 million, down 8.2 percent from 16.9 million in 2007. An overall, worldwide auto sale in 2008 has decreased by 6.3 percent to 66.5 million, compared to 71 million in 2007. A further worldwide decline to 62.2 million, or a 6.5 percent decrease, is projected for 2009 (Refer Figure 1.3).
Now it is known that the consumer automotive leasing business model has broken down, mostly in the United States. Most economists agree that a severe recession has broken out in the US, one that will linger for four to six quarters.

However, the US is still far from the biggest decline it has seen in auto sales. In 1974, the recession brought the steepest one-year US auto sales decline in history, at nearly 21 percent. However, sales experienced a major recovery two years later.

**Figure 1.3: U.S and Western European Automobile Unit Sales Forecast**

**(Million of Units)**

![Graph of U.S and Western European Automobile Unit Sales Forecast](image)

**Source:** iSuppli Corp. November 2008 and Auto Monitor (December 1-15, 2008).

As far as the committed investments of global automakers are concerned, they would be implemented as the future growth potential of the Indian market is still good. These short term fluctuations are not likely to set back any of the long term investment plans.

While ACMA, the representative body of Indian Auto Component Industry, says that it remains very positive about the long term prospects of the automobile and component industries, the short term poses hard challenges.
In spite of the current challenges, the future is still bright for the Indian automotive industry. However all the players need to use this time to streamline their operations and become more efficient and lean so that they can reap the rewards of growth in the coming years.

Ohmae (1989) compared the culture of an organization like the soil, business like a tree growing in the soil and profits like the fruits of the tree.

As per him, being a global player means viewing the whole global market as our proper soil, our place to plant trees and nourish them. No matter what happens to a particular tree, we should not even think about transplanting the rest—not if the soil is right and the weather is mostly fine. They will bear fruit in another season, if not this year.

What Hamel and Valikangas (2003) discussed about resilience is very relevant to the situation. They said ‘Call it the resilience gap. The world is becoming turbulent faster than organizations are becoming resilient. The evidence is all around us. Big companies are failing more frequently’

They added that strategic resilience is not about responding to a one-time crisis. It is not about rebounding from a setback. It’s about continuously anticipating and adjusting to deep, secular trends that can permanently impair the earning power of a core business. It is about having the capacity to change before the case for change becomes desperately obvious.

Taking reference to Rothschild’s findings on ‘Global Automotive Supplier Study 2008’, Darius Lam (2008) says automotive suppliers are currently facing one of the most competitive environments ever, thanks to rising raw material prices and increasing competition from low cost countries and this is only set to get worse in the future. Surprisingly, however, the study finds that the profitability of suppliers has continued to improve in 2007, with mid-size and large suppliers based in Europe, Japan and India being particularly successful. Globally, the Return on Capital Employed for automotive suppliers has grown from 7.9 percent in 2001 to
11.9 percent in 2007. In Asia, including India, the ROCE has jumped from 6.1 percent in 2001 to 13.3 percent in 2007; however, this excludes countries like Japan, China and Korea.

Indian suppliers as a whole have come in for praise from Rothschild for managing their growth well, keeping costs down and being flexible in dealing with the changing business environment.

Rothschild has identified 15 main levers for the future success and profitability of automotive suppliers. These include a focus on growing segments and customers, focused product portfolio, diversified customer portfolio, high share of innovative products and a customer focused sales organization. Other areas where firms need to focus are having a global footprint, lean overheads, strong global purchasing, effective research activity, process excellence, optimized working capital management, efficient asset management, adequate leverage, optimal use of capital and finally attracting and retaining the best people.

Buyers have also become less brand-loyal, more price sensitive and increasingly aware about preserving the environment. As a result, vehicle manufacturers are shifting their investment focus to emerging markets, struggling with overcapacity, moving towards low cost and low tech products, trying to reduce their purchasing costs and thinking ‘green’. These changes are putting supplier profitability under increased pressure, as they are forced to meet the changing demands of the OEMs, while coping with higher material costs.

Analysis of global supplier profitability shows that the best performing suppliers come from Western Europe, Japan and India. Also, they have annual revenues of between 2.5 and 10 billion Euros and manufacture components related to the power train, interiors and chassis of the vehicle.
1.2 SWOT ANALYSIS

Sadhu Ramakrishna (2007) has done SWOT Analysis for Indian Auto Component Industry.

Table 1.2

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Low cost of production</td>
<td>- Low investments in R&amp;D</td>
</tr>
<tr>
<td>- Availability of skilled manpower</td>
<td>- Limited knowledge of product liability and offshore warranty handling</td>
</tr>
<tr>
<td>- Strong process engineering and product engineering capabilities</td>
<td>- Lack of experience in system integration</td>
</tr>
<tr>
<td>- Growing domestic automotive market</td>
<td>- Poor infrastructure for supply chain and exports</td>
</tr>
<tr>
<td>- Manufacturing capabilities with international quality standards</td>
<td></td>
</tr>
<tr>
<td>- Higher operational efficiency</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Continuous pressure on global OEMs and Tier 1s to reduce cost and source components from low cost countries</td>
<td>- Development of new technologies like fuel cells or hydrogen powered vehicles which might have an effect on the components industry</td>
</tr>
<tr>
<td>- Frequent introduction of newer models by auto makers.</td>
<td>- More OEMs entering the Indian Market that might result in migration of talent from suppliers to OEMs</td>
</tr>
<tr>
<td>- Global market opportunity provided by the auto industry</td>
<td>- Competition from other low cost countries like China, Taiwan</td>
</tr>
<tr>
<td>- Leverage on product engineering expertise to improve the auto components export worthiness</td>
<td></td>
</tr>
<tr>
<td>- Acquisitions in foreign markets</td>
<td></td>
</tr>
</tbody>
</table>
While Strengths will become part of major marketing strategies directly, structured actions taken by the Indian Auto Component Industry to manage Weaknesses and Threats and also steps adopted to fully utilize the Opportunities will lead to formation of further marketing strategies.

1.3 NEED FOR THE STUDY

1) The concept of attaining competitiveness on the basis of cheap and abundant labour, favorable exchange rates, low interest rates and concessional duty structure is becoming inadequate and therefore not sustainable. Considering this, it is felt that a greater emphasis is required on the development of the factors which can ensure competitiveness on a long term basis (Ministry of Heavy Industries and Public Enterprises, 2006).

2) The global auto component industry is estimated to be USD 1.2 trillion in value and is likely to increase to USD 1.7 trillion by 2015. Sourcing from low cost countries is likely to increase from USD 65 billion in 2002 to USD 375 billion by 2015. Although India’s exports are still small (USD 3.6 Billion in 2007-08), it has opportunity to leverage this trend by expanding its supply base to build dominant position amongst auto component low cost countries by 2015. A position in the top two would enable India to achieve export of USD 20-25 billion by 2015. This would increase India’s share of world auto component trade from 0.9 percent in 2005-06 to 2.0-2.5 percent by 2015, inclusive of domestic consumption (ACMA – McKinsey Report, 2005).

3) India is not the only low-cost country supplying to the global auto parts industry. After adjusting for labor productivity, the labor costs of Mexico (in N. America); Brazil (in S. America); Poland and Czechoslovakia (in Eastern Europe besides other countries); and China, Thailand and Vietnam (in Asia) are comparable to India. Reduced supply-chains (especially for countries near their target markets, like Mexico for the US) also count against sourcing components from China or India (Balaji and Gupta, 2007). Thus there is tough competition for Indian Auto Component Industry from many countries.
It has become imperative for the Indian Auto Component Industry to go for carefully laid-out overseas marketing strategies in order to improve their share of the world market substantially and also to remain competitive, these two being among the prime factors of automotive business.

The Indian auto component sector has over 500 organized sector players and about 5000 unorganized sector players. The current study is on Overseas Marketing Strategies of the Indian organized sector players.
REFERENCES


*Auto Focus Asia*, (2) 80-81.