CHAPTER 2

PROFILE OF GLOBAL AUTOMOTIVE INDUSTRY AND INDIAN AUTO COMPONENT INDUSTRY

The automobile and automotive parts & components manufacturers constitute a major chunk of automotive industry throughout the world. The automotive manufacturing sector consists of automobile and light truck manufacturers, motor vehicle body manufacturers, and motor vehicle parts and supplies manufacturers. This sector is engaged in manufacturing of automotives and light duty motor vehicles, motor vehicle bodies, chassis, cabs, trucks, automobile and utility-trailers, buses, military vehicles, and motor vehicle gasoline engines.

In this chapter, we have detailed our study of profile of both Automotive and Auto Component Industry in the global level as well as India level in terms of history and current status. Anything happening in this industry has larger implications on the economy of any country; hence Government has a larger role to play. Hence we have included our study on Government’s initiatives also.

2.1 HISTORY OF GLOBAL AUTOMOBILE INDUSTRY

In order to appreciate the current approaches and demands by Automobile Industry, we take a look at history of global automobile industry.

The first automobile company was founded in 1896 by Charles Edgar Duryea and his brother Frank and this initiative paved the way for the emergence of an automobile industry.

The automobiles manufactured in the 1890s were called ‘horseless carriages’. This marked the beginning of craft production as all the manufacturing was done by craftsmen employed in metal and machine tool industries. Each car was tailor-made to suit the needs of wealthy customers. But this craft-based production structure demanded skilled workers and resulted in very low production volume.
By early 20th Century, the craft-based system was replaced by mass production techniques, popularized by Henry Ford. In 1913-14, he upgraded the existing push and move assembly line to a conveyor belt line, which reduced assembly time considerably. His famous Model T was assembled in 93 minutes. The main advantage of mass-production technique over craft-production was the ability to manufacture several products simultaneously rather than one at a time. The other features like inter-changeability of standard parts, standardized product design, and centralized hierarchy of tasks helped to realize economies of scale. This increased labor productivity by leaps and bounds but also brought about a reduction of skilled labors. Each worker performed identical tasks using identical tools which were always kept within hand-reach. It was found that the Ford assembler’s average task cycle declined from 514 minutes in 1908 to 1.19 minutes with the introduction of moving assembly line in 1913 (Gopal, 2009).

The enormous success of mass production resulted in the global sector being dominated by the American car manufacturers. In 1955, North America accounted for 75% of global motor vehicle production. The Big Three, Ford, GM and Chrysler accounted for 95% of all American car sales.

In Europe, mass production was widely adopted in the 1950s through the initiatives of Volkswagen, Renault and Fiat. With focus on product strategy, the European automobile industry contributed more than the US to the global automobile production during 1960s and early 1970s.

Japanese auto-makers emerged as a force to reckon with in the global scenario with the oil crisis in 1973, and subsequent price increases in 1979. The crisis had resulted in a shift in consumer demand for energy efficient cars, a segment hitherto dominated by the Japanese automakers.

By 1980s, the Japanese auto-makers were benefited from the voluntary export restraints in the US and set up assembly plants known as transplants within North America. Towards the latter half of 1990s Japanese cars accounted for 40% of the total North American sales. In addition to cost savings by way of cheap labor,
they also initiated better manufacturing techniques such as the Toyota Production System, developed by Taiichi Ohno in the 1960s and 1970s and based on lean production techniques in the 1980s.

The global output from the automobile industry touched 64.6 million vehicles in 2005, thereby retaining its leadership in manufacturing activity, providing employment to one in seven people, either directly or indirectly. This supply mainly catered to meet the demand from households where the automobiles constituted the second largest expenditure item next only to housing. Thus the global automobile industry dominated by Europe, US, Japan, and of late by China and India, continued to have a significant influence on economic development, international trade, foreign direct investment and environment-friendly practices.

Increasing global trade has enabled the growth in world commercial distribution systems, which has also expanded global competition amongst the automobile manufacturers. Japanese automakers in particular, have instituted innovative production methods by modifying the U.S. manufacturing model, as well as adapting and utilizing technology to enhance production and increase product competition.

2.2 GLOBAL AUTOMOBILE INDUSTRY-CURRENT STATUS

United States, Japan, China, Germany and South Korea are the top five automobile manufacturing nations throughout the world. The United States of America is the world's largest producer and consumer of motor vehicles and represents nearly 10% of the USD10 trillion US economy.

Major Industry Players:

The worldwide automobile industry is largely dominated by five leading automobile manufacturing corporations namely Toyota, General Motors, Ford Motor Company, Volkswagen AG, and Daimler Chrysler. These corporations have their presence in almost every country and they continue to invest into
production facilities in emerging markets namely Latin America, Middle East, Eastern Europe, China, Malaysia, India and other markets in Southeast Asia with the main aim of reducing their production costs.

**Key Industry Drivers:**

The important features of global automotive industry are enumerated below.

1. It offers support to other industries such as iron, steel, rubber, glass, plastic, petroleum, textiles, oil and gas, paints and coatings and transportation industries.

2. Rising foreign investments have led to the rapid growth in terms of automobile production and exports. Overseas companies are making huge investments and are installing extensive production capacities in developing countries.

3. Continuous investment in research & development has resulted in increased productivity and better quality automobiles, automotive accessories and parts.

4. Increase in standards of living and purchasing power parity have resulted in the increase in demand of automobiles especially four-wheelers in developing nations, mostly in South Asian region.

5. This sector provides employment to major chunk of human population in the world i.e. 25 million. This industry not only provides millions of jobs to the people, but also produces billions of dollars in terms of worldwide revenues.

6. Adequate infrastructural facilities in the form of power supply, machinery, capital, ready availability of raw materials and labor help in the tremendous growth of this industry.

7. The automotive industry has witnessed tremendous and unprecedented changes few years ago. This industry, slowly and gradually shifted towards
Asian countries, mainly because of saturation of automobile industry in the western world. The principal driving markets for Asian automotive industry are China, India and ASEAN nations.

8. Low cost vehicles namely scooters, motorcycles and mopeds have led to the massive growth of some of the fastest developing economies like China and India.

**Establishment of Global Alliances:**

U.S. automakers, "The Big Three" (GM, Ford and Chrysler) have merged with, and in some cases established commercial strategic partnerships with other European and Japanese automobile manufacturers. Some mergers, such as the Chrysler Daimler-Benz merger, was initiated by the European automaker in a strategy to strengthen its position in the U.S. market. Overall, there has been a trend by the world automakers to expand in overseas markets.

**Industry Consolidation:**

Increasing global competition amongst the global manufacturers and positioning within foreign markets has divided the world's automakers into three tiers, the first tier being GM, Ford, Toyota, Honda and Volkswagen, and the two remaining tier manufacturers are attempting to consolidate or merge with each other to compete with the first tier companies (BERA, 2004).

1st Tier Company Mergers - Volkswagen-Lamborgini; BMW-Rolls Royce
2nd Tier Company Mergers - Chrysler-Mercedes Benz; Renault-Nissan-Fiat
3rd Tier Company Mergers - Mazda-Mitsubishi; Kia-Volvo

**Global automotive industry facing the biggest crisis ever:**

Three concurrent developments are putting the global automotive industry under huge pressure: the global downturn in the car and truck market, the trend towards
small and basic cars and the collapse of financing in the automotive industry. Overall, global car sales have declined by 3% in 2008.

U.S sales have fallen down by 32%, where GM has recorded a fall of 45%, Ford of 30% and Chrysler down by 35%. All the three major car manufacturers have reported declined growth after the hit of recession.

Among the leading car manufacturers, General Motors and Ford were the first one to file for bankruptcy.

The triad markets NAFTA, Europe and Japan are being hit particularly hard. Volumes in early 2009 are 25-35% below 2008 – and car sales promotion programs in Europe will not have a sustainable impact. The result: 2007 volumes will not be achieved before 2012/2013 (Roland Berger 2009).

**Downshifting – Luxury cars and SUVs lost ground:**

The severe liquidity crunch in the U.S market has forced many of the car buyers to cut upgrades to bigger cars and many are pushed back from buying new cars.

As one aspect of the crisis, the mix of global car sales has changed: The small car segment continued to grow worldwide even in 2008 (6%), while luxury cars (-19%) and SUVs (-11%) lost ground dramatically. This downshift is having a significant impact on market shares of the OEMs: While almost all companies with a strong focus on the luxury and SUV segments lost market share, other OEMs more specialized in small cars even managed to grow sales – Skoda or Suzuki, for example, by around 10%.

Even commercial vehicle sales are currently collapsing worldwide. Once attractive "niche" segments like trucks or construction vehicles are also under unprecedented pressure.
Automotive supplier profitability has reached a historical low:

Automotive suppliers are facing deteriorating financial performance. The bottom line is that global automotive supplier profitability collapsed in 2008 to around 3% EBIT margin (2007: 5.4%).

Unlike in previous downturns, suppliers are currently unable to compensate for the cash shortages from operations with new money injections from their owners or the capital markets. In addition, credit insurers are withdrawing coverage, making working capital management through factoring impossible.

2.3 GLOBAL AUTO COMPONENT INDUSTRY-CURRENT STATUS

Brazil, Russia, India and China have been recognized as Low Cost Countries or Leading Competitive Countries (LCCs) for Auto Component Exports.

Kenneth Lieberthal and Geoffrey Lieberthal (2003) have some findings about low cost manufacturing in China. They note that China is attracting enormous attention for very good reason. The reason is not just that China is big or that its economy is the only one that has been able to sustain rapid growth over the last there years. It is that China is now profoundly affecting the competitive capabilities of all multinational corporations.

Companies throughout the world are affected by the impact of low cost Chinese manufacturing on worldwide pricing, for instance, whether or not they have operations there or engage in direct trade.

China’s overall record since reforms began in 1979 is very appreciable, and its performance is in many ways improving. Annual real GDP has grown about 9% a year, on average, since 1978- an aggregate increase of some 700%. Foreign trade growth has averaged nearly 15 % over the same period or more than 2,700% in aggregate. The country has developed a powerful combination- a disciplined low-cost labour force; a large cadre of technical personnel; tax and other incentives to
attract investment; and infrastructure sufficient to support efficient manufacturing operations and exports.

China will remain an exceptionally challenging environment. It is a country with inadequate legal protection, rampant intellectual property rights violations, massive government interference and severe price competition from state-subsidized firms.

For Tarun Khanna, et al. (2005), multinationals face different kinds of competition in each of emerging markets in four countries - Brazil, Russia, India and China.

He has found that in China, state-owned enterprises control nearly half the economy, members of the Chinese Diaspora control many of the foreign corporations that operate there, and the private sector brings up the rear because entrepreneurs find it almost impossible to access capital. India is the mirror image of China. Public sector corporations, though important, occupy nowhere near as prominent a place as they do in China.

India has spawned many private sector organizations, some of which are globally competitive. It is difficult to imagine a successful business in China that hasn’t had something to do with the government; in India, most companies have succeeded in spite of the state.

Brazil mixes and matches features of both China and India. Like China, Brazil has floated many state-owned enterprises. At the same time, it has kept its door open to multinational, and European corporations such as Unilever, Volkswagen, and Nestle; they have been able to build big businesses there. Brazil also boasts private sector companies that, like Indian firms, go head-to-head in the local market with global firms.
Russia is also a cross between China and India but most of its companies are less competitive than those in Brazil. There are only a few strong private sector companies in the market.

The Russian government is involved, formally and informally, in several industries. Administrators at all levels can exercise near veto power over business deals that involve local or foreign companies and getting permits and approvals is a complicated chore in Russia.

The financial markets in Brazil, Russia, India and China vary, too. In Brazil and India, indigenous entrepreneurs, who are multinationals’ main rivals, rely on the local capital markets for resources. In China, foreign companies complete with state-owned enterprises, which public sector banks usually fund. The difference is important because neither the Chinese companies nor the banks are under pressure to show profits. Moreover, financial reporting in China is not transparent even if companies have listed themselves on stock exchanges. State-owned companies can for years pursue strategies that increase their market share at the expense of profits. Corporate governance standards in Brazil and India also mimic those of the west more closely than do those in Russia.

2.4 HISTORY OF INDIAN AUTOMOBILE INDUSTRY

The period prior to the entry of Maruti Udyog (1940s to 1984) was characterized by handful of players in the Indian automobile market like Hindustan Motors, Premier Automobiles, Telco, Bajaj and Mahindra and Mahindra who were making low technology vehicles.

After the entry of Maruti Udyog, global players started coming into India. This got accelerated post economic liberalization in 1991.

The automotive Industry in India is now working in terms of the dynamics of an open market. Many joint ventures have been set up in India with foreign collaboration, both technical and financial with leading global manufacturers.
The buoyant market prompted global auto giants such as Hyundai, Nissan and Ford to invest billions of dollars in auto plants in India, to take advantage of an expanding middle class, which was snapping up cars and homes. The companies have made India a manufacturing base for production of compact cars both for the local market and export.

Indian Automotive Industry has every global automotive company today such as Maruti Suzuki, General Motors India, Ford India, Eicher Motors, Bajaj Auto, Hero Honda Motors, Hindustan Motors, Hyundai Motor India, Royal Enfield Motors, Tata Motors, TVS Motors, Mahindra and Mahindra, Swaraj Mazda, Mercedes Benz, Skoda India, Honda Motors and Honda Motorcycles and Scooters.

In comparison with the population of India, still number of Indians owning cars is not much. There are just 7 per thousand people according to SIAM (Society of Indian Automobile Manufacturers, an apex body of all automotive manufacturers). That compares to 18 in Indonesia, 57 in Thailand, 453 in the U.S. and 565 in Germany.

2.5 INDIAN AUTOMOBILE INDUSTRY-CURRENT STATUS

Indian Automobile Industry had been performing very well until first half of the year 2008-09 as shown in Figures 2.1 through 2.3.
Figure 2.1: Indian Passenger vehicles Production


Figure 2.2: Indian Commercial vehicles Production

Global recession has devastated the global auto industry with pinching effects on the Indian auto industry from second half of the year 2008-09.

All Indian car manufacturers have seen their sales dropping drastically. SIAM has cut down the growth forecast of automotive sales from 12.5% to 9.5% for the year 2008-09.

Sales of cars fell by more than 20 percent in November, 2008 compared to the same month last year, and those of heavy commercial vehicles dropped by as much as 60 percent.

The decline comes after three years of steady growth, fueled by a booming domestic economy.

However, there is still hope for automobile industry of India in 2009 as there are certain factors working in its favor. India is blessed with a middle class, which is

getting economically stronger with every passing day. This class is being touted as potential consumers for India auto industry in years to come.

Indian economy has been, more or less, able to withstand tremors of global financial meltdown. Even though its rate of growth has slowed down considerably, there are hopes of an economic revival. Work force of auto industry of India is relatively well-trained. All these factors indicate that there could be a decent future for Indian auto industry in days to come.

Analysts say projections that the Indian auto industry will grow from $35 billion, at present, to USD 145 billion by 2016 still hold good. In fact, they say at a time when global automakers are facing huge problems in their home markets, they may still rake in some profits here although not as large as expected earlier.

The impact of global meltdown on the Indian industries is going to make the auto industry leaner, feel industry experts.

Exports are worrisome and may take three years to revive.

2.6 HISTORY OF INDIAN AUTO COMPONENT INDUSTRY

The Indian Auto Component Industry began in a very small way in the 1940s. It had three phases of evolution (Gupta, 2006).

1. Period prior to the entry of Maruti Udyog (1940s to 1984).


The period prior to the entry of Maruti Udyog was characterized by low technology and assured business for most of the auto-component manufacturers who used to supply to a handful of players in the Indian automobile market like
Hindustan Motors, Premier Automobiles, Telco, Bajaj and Mahindra and Mahindra.

With the entry of Maruti in the 1980s, the auto ancillary industry in the country showed a spurt in growth. This period witnessed the emergence of a new generation of auto ancillary manufacturers who were required to meet the stringent quality standards of Maruti’s collaborator Suzuki of Japan. The good performance of Maruti resulted in an upswing for the domestic auto ancillary industry. It was also during this period that auto components from India began to be exported.

With the liberalization of the Indian economy in 1991 and coming of many foreign automobile manufacturers like Hyundai and Daewoo, the auto ancillary industry witnessed huge capacity expansions and modernization initiatives in this period. This also led to a tough competitive scenario, which saw a lot of consolidation, technological collaborations and equity partnerships within the industry and with leading global players abroad.

From 1991, Indian Auto Component Industry has come a long way. Global customers have exacting requirements of QCD (Quality, Cost and Delivery) which every exporting Auto Component Manufacturer has to meet.

2.7 GROWTH OF INDIAN AUTO COMPONENT INDUSTRY

The fortunes of the auto component industry are closely knit with those of the automobile industry (ParvathaVardhini, 2007)

The Indian Auto Component industry is one of India's sunrise industries with tremendous growth prospects. From a low-key supplier providing components to the domestic market alone, the industry has emerged as one of the key auto components centres in Asia and is today seen as a significant player in the global automotive supply chain. India is now a supplier of a range of high-value and
critical automobile components to leading global auto makers such as General Motors, Toyota, Ford, and Volkswagen amongst others.

Table 2.1 shows current product groups of Auto Components and their relative share in the overall basket of the market.

<table>
<thead>
<tr>
<th>Product Group</th>
<th>Products</th>
<th>Share (%)</th>
<th>Some of the Key Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical Parts</td>
<td>Starter Motors and Generators</td>
<td>9</td>
<td>Motor Industries Company, Denso, India Nippon Electrical</td>
</tr>
<tr>
<td>Drive Transmission and Steering Parts</td>
<td>Gears, Clutches, Axles</td>
<td>19</td>
<td>Rico Auto Industries, Sona Koyo Steering Systems, Automotive Axles, GKN Driveshafts, Bharat Gears, Rane (Madras), Clutch Auto, Ceekay Daikin</td>
</tr>
<tr>
<td>Suspension and Braking Parts</td>
<td>Brakes, Leaf Springs, Shock Absorbers</td>
<td>12</td>
<td>Brakes India, Sundaram-Clayton, Munjal Showa, Gabriel India, Rane Brake Linings, Sundaram Brake Linings, Jamna Auto</td>
</tr>
<tr>
<td>Equipment</td>
<td>Headlights, Dashboard Instruments</td>
<td>10</td>
<td>Premier Instruments &amp; Controls, Lumax, Motherson Sumi Systems</td>
</tr>
<tr>
<td>Others</td>
<td>Sheet Metal Parts, Pressure Die Castings, Tyre Tube Valves and Cores</td>
<td>7</td>
<td>Jay Bharat Maruti, MRF, CEAT</td>
</tr>
</tbody>
</table>

Source: ACMA 2008

According to the Investment Commission of India, global automobile manufacturers see India as a manufacturing hub for auto components and are
rapidly increasing the value of components they source from India due to the following reasons (IBEF 2009).

- India's cost competitiveness in terms of labour and raw material.
- Its established manufacturing base.
- Many international auto-component majors including Delphi, Visteon, Bosch and Meritor have set up operations in India.
- Auto manufacturers including GM, Ford and Toyota and auto components manufacturers have set up International Purchasing Offices (IPOs) in India to source for their global operations.
- Fine-quality components are manufactured in India (used as original components for vehicles made by General Motors, Mercedes, IVECO and Daewoo among others).
- India is also fast becoming a global hub for R&D: GM, Daimler Chrysler, Bosch, Suzuki, Johnson Controls etc. have set up development centers in India.
- German automobile company Volkswagen AG will be acquiring auto components worth around US$ 1.26 billion from Indian supplier firms during 2009-2010.
- Honda Siel Cars India Ltd will be soon starting exports of auto components from India, beginning with a volume of 20,000 units of each product in a year. These products will be delivered to Honda's plants in Asia.
- GM has already bought components worth USD 500 million from India and it plans to meet the target of USD 1 billion by 2010.

Acquisitions and Joint Ventures

Indian auto component majors have been entering into joint ventures and mergers with global auto component makers for quite some time now. Some of the recent deals include:
• Motherson Sumi Systems has bought UK-based Visiocorp's global rear view mirror business.
• PMP Components has acquired Czech Republic-based PAL International, which is the third largest wiping systems manufacturing company in Europe.
• Autoline Industries acquired 49 per cent stake in two Italian firms — SZ Design Srl and Zagato Srl.
• Ashok Minda Group, acquired the German firm Schenk Plastic Solutions, which had a turnover of USD 95.24 million in 2007-08.
• Amtek Auto Ltd signed a joint venture agreement with Michigan's FormTech Industries LLC to set up an automotive forgings manufacturing unit.

Focus on Value Addition:

While some companies were adopting diversification into new segments to cushion the effect of a slowdown, others such as Sona Koyo Steering resorted to a superior product mix to tackle the margin pressures.

Similarly, companies engaged in the forging business moved into producing value-added machined forging components, rather than raw forgings, in a bid to upgrade their product mix.

Several leading players have taken measures to step up their overseas sales. For example, the export market for aluminium-based components (due to its lighter weight and consequent advantages of fuel efficiency) is fast growing. Targeting this huge export opportunity, Sundram Clayton has demerged its brakes business to focus more attention on its aluminium die casting business. Companies such as Sundram Fasteners, Amtek Auto and Bharat Forge have in the past few years, acquired companies that have facilities closer to global OEMs in Europe and America. This has helped them gain ready access to a diverse customer base consisting of big automobile OEMs such as Volkswagen, BMW, Daimler Chrysler, Audi, Scania and Volvo.
These companies adopt a ‘dual-shore manufacturing model’ under which offshore locations are used as a technical hub with emphasis on product design, development and manufacture of high-value critical components; Indian facilities are used in high-volume production due to their cost advantage. For the companies, this model brings in two benefits-optimization of costs, a larger product portfolio and geographic diversification across locations.

A matter of concern is the continued currency fluctuation. As more and more companies emerge as Tier I suppliers to OEMs, they enter into long-term contracts, necessitating gradual reduction in prices and less flexibility for renegotiation in case of a currency fluctuation.

The labour cost advantage of manufacturing companies in India and other rapidly developing economies (RDEs) is now well recognized (Bhattacharyya and Nandagaonkar, 2006).

What is less well recognized is the capital advantage of many of these RDE-based manufacturing firms, both local and MNCs, which can translate up to 40% to 50% higher capital productivity compared with similar plants in more developed economies. These firms belong to both process industries like steel and cement, or discrete manufacturing industries like automotive or consumer durables.

Underlying this ‘hidden’ capital advantage are three different levers. The first one is the substantially lower cost (as high as 80%) of the highly skilled competencies like process or production engineering used for new plant and equipment design and installation.

The second lever is 30% to 60% lower cost of plant equipment in RDEs than a comparable plant in the west. This cost advantage of RDEs is driven by, one, lower levels of automation. Two, locally fabricated equipment like chambers, boilers, conveyors and material handling equipment which cost much less as they are labour intensive in their manufacture. Three, buying second-hand plants from the west which have significant part of their technical life still left, refurbishing
and improving them using skilled in-house labour. Four, change manufacturing processes to make them more labour intensive, and, five, manufacture/assemble machines in-house rather than import costly ones.

The third lever leads to higher asset utilization. For example, a typical European/US plant will have at most a two-shift, five days/week operations whereas many plants in RDEs run seven days/week, three shift operations (assuming there is sufficient demand) and thus sweat their assets much more.

2.8 INDIAN AUTO COMPONENT INDUSTRY-CURRENT STATUS

ACMA:

This is an apex agency of the Indian Auto Component Industry

In the year 1959 it was started as The All India Automobile & Ancillary Industries Association (AIA & AIA). Its name was changed as ‘Automotive Component Manufacturers Association of India ACMA’ in the year 1982. It has 558 companies forming majority of the auto component output in the organized sector.

Most of the Members of Indian Auto Component Industry have implemented majority of the Quality Management Systems namely ISO 9000 (551), ISO 14001 (180), TS 16949 (382) and OHSAS 18001 (59).

11 companies have received Deming Award and 4 companies have received TPM Excellence award.

Many of the member companies are embracing modern shop-floor practices namely 5-S, 7-W, Kaizen, TQM, TPM, 6-Sigma and Lean Manufacturing (refer Figure 2.4).
As per ACMA data, continent-wide exports by Indian Auto Component Industry are:

- Europe 38.7%
- North America 26.9%
- Asia 12.4%
- Africa 10.8%
- Middle East 7.1%
- South America 2.8%
- Oceania 1.2%
- Others 0.1%

Composition of Auto Component exports from India has undergone total transformation over the years. In 1990s, Aftermarket Export was 65% and OEM/TIER1 Export was 35% whereas, in the year 2007, Aftermarket Export and OEM/TIER 1 Export became 25% and 75% respectively. This clearly indicates that though customers worldwide procured non-critical Aftermarket parts mainly initially, going by the consistent quality improvements implemented by Indian Auto Component Industry, they graduated to procuring critical OEM/TIER 1 parts (ACMA, 2008).

Most of the global automobile majors like General Motors, Ford, Fiat, Mercedes-Benz, Renault, BMW, Volkswagen, and even the Japanese companies like Toyota and Nissan procure Auto Components from India for their global manufacturing.
Tier 1 companies like Bosch, Valeo, Magna, Delphi, Arvin Meritor, Getrag, Visteon and even Japanese company Denso procure Auto Components from India for their global operations.

Many of the global Auto companies have their design centers in India. Notable among them are General Motors, Delphi, Suzuki, Bosch and Honda.

ACMA-McKinsey Study:

ACMA – McKinsey Report (2005), found that the customer prices for automobiles are expected to remain flat over the next 10 years, despite the desire for new features and the need to comply with higher environmental and safety standards. This implies that OEMs need to find ways to reduce 20% of the total expected cost of a car in 2015 to ensure that costs are what the customers are willing to bear (Figure 2.5). Most of the savings will come from mechanical parts since there is little potential to cut costs in electronic parts which would use new and emerging technologies. One of the several responses to this type of severe cost reduction pressure will be for OEMs and Tier-1 suppliers to increase sourcing from LCCs.

**Figure 2.5 Price Squeeze on Global OEMs**

<table>
<thead>
<tr>
<th>Car cost 2002</th>
<th>Added cost of innovation, Mostly from Electronics, Emission and Regulations</th>
<th>Total expected cost in 2015 car cost that market can hear in 2015</th>
<th>Target cost reduction, mostly in mechanical parts</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>4</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Car cost 2002</td>
<td>4</td>
<td>Total expected cost in 2015</td>
<td>Car cost that market can hear in 2015</td>
</tr>
<tr>
<td>12</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

Price in ‘000 Euro / Vehicle (European Compact Car)

*Source: McKinsey/PTW HAWK Survey 2005*)
Global automotive components consumption is expected to grow from USD 1.2 trillion in 2003 to USD 1.65 trillion by 2015. Of this USD 1.65 trillion, India-based (and other LCC) players can theoretically address roughly 42% or USD 700 billion. They cannot address USD 425 billion or 26% of the market that will primarily be manufactured by OEMs in their home countries. Another USD 525 billion or 32% of the global market will be ruled out because of practical difficulties in off-shoring or because it will yield negligible savings.

Driven by their intrinsic strengths, India-based players could build a strong position in many segments. India could gain a 10-12% share of the overall addressable market in components where it has an advantage over other LCCs, and a 5-7% share where it competes equally with other LCCs. India could therefore aspire to a 3-4% share of the overall addressable market of US$ 700 billion in 2015.

These share aspirations would translate into US$ 20-25 billion in exports by 2015, with the largest shares coming from North American and western European LPV and HCV markets and the global aftermarket. This coupled with US$ 13-15 billion of the domestic and indirect exports market will translate into a total industry size of US$ 33-40 billion.

2.9 INDIAN GOVERNMENT INITIATIVES

Though Indian Auto Component Industry have formulated Overseas Marketing Strategies over many years, many of the Strategies lean heavily on Indian Government Initiatives and policies and their sustenance and need-driven modifications/changes. Such initiatives have been studied which are dealt briefly in the following paragraphs. Some of the initiatives and policies are favorable to export efforts of Indian Auto Component Industry; few of them are not found favorable.
Automotive Mission Plan 2016:

The government has envisaged the Automotive Mission Plan 2016 to promote growth in the sector. Its targets:

- Emerging as the global favourite in the area of design and manufacture of automobiles and auto components.
- Taking the output to US$ 145 billion, accounting for more than 10 per cent of the GDP, from USD 35 billion at present.
- Increasing the export revenue to USD 35 billion by 2016 from USD 4.1 billion at present.
- Offering additional employment to 25 million people by 2016.

Free Trade Agreement

India has concluded FTAs with SAARC, Singapore and Thailand, and it is working on similar arrangements with ASEAN, Japan, China and South Korea as well.

Under the Doha declaration, India has committed to the elimination of tariffs over the years. This means that even in a multilateral system, India is going to be eventually eliminating tariffs.

Seshasayee (2006) said that FTA is not a good idea where you have competing competencies. The arc of overlap, in this case is very large between two countries because they have competencies in the same kind of areas and you are, of course, into a much large kind of conflict area.

In such a context, Thailand truly is not the best starting point for an FTA, because like India, it has a lot of competencies which are common. In that sense, China is not the best candidate for an FTA either because, again, India has more or less similar competencies.

China is a tough competitor because of the huge scales of operations it has in any area. In any industry, the capacity it has is several multiples higher than India’s. It
also has cost advantage, which comes about partly because of the contract labour they have and partly, to some extent, due to non-transparent accounting. Their productivity is very high too.

By cleverly designed rules of origin (ROO), the US and the EU have ensured huge markets for their products in countries participating in FTAs (ROOs are meant to ensure that goods mostly manufactured in a country outside the agreement are not diverted to the FTA countries, to take advantage of the low or nil tariff regime).

The FTA between India and ASEAN countries creates new opportunities for operations in India especially in sharing components. Honda is planning to source components from India for its manufacturing sites at other locations, especially in the South-East Asian countries.

2.10 ROAD AHEAD

For the Indian auto-component industry to achieve its ambitious targets of becoming a USD 40 billion industry by 2015, it is imperative that it transforms its competitive advantages from cost to value.

Slowdown during second half of year 2008-09 will not remain for long going by the cyclic nature of Automotive Industry. Indian auto component Industry should focus on its competitiveness, learn the best manufacturing practices, be quality conscious and at the same time inculcate a prompt delivery culture.

The Indian auto component industry is one of the front runners for grabbing the global auto component outsourcing market, estimated to be worth USD700 billion by 2015.

However, the journey is not smooth. The industry accounts for only 0.4% of the USD1.2 trillion global components industry as against competitors like China (1.2%) and Mexico (5.9%). It is up against challenges such as lack of good
infrastructure and increasing input costs, which could impede its growth (Chigullapalli and Mylavarapu 2009).

The FTAs (Free Trade Agreements) and RTAs (Regional Trade Agreements) signed with China and ASEAN countries are arguably in their favour. Trade agreements signed with countries like Thailand and China which already offer a number of incentives to their domestic players, are perceived to be a huge threat to India. The agreements are seen as the reason behind India losing out to these countries in gaining green field investments and are expected to hamper future investments in India. It is feared that this could severely dent India’s competitive advantage very soon.

The government reduced the peak import duty from 15% during 2005 to 12.5% in 2006. This increased the Chinese imports by three times to Rs.100 crores in 2006 from 2005. While the peak import duty could have been retained until some more internal reforms took place, the government cut it down further by 2.5% in 2007. The industry is facing about 18-20% cost disadvantage in the form of increasing raw material costs, power costs, higher taxation and infrastructure costs, when compared to China and Thailand. With the increasing input costs and automobile designs getting changed frequently, components manufacturers are required to constantly invest to upgrade themselves and to add value. This has been a drag, especially on small and medium manufacturers.

The World Trade Organisation (WTO) has recently given a ruling against the imposition of 25 per cent import duty on auto parts by China. Indian auto component manufacturers stand to gain significantly from the ruling as any cut in the duty will make their products cheaper in the Chinese market, and give them more access to the Chinese market.
REFERENCES


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