Chapter-1

INDIAN CAR INDUSTRY
Chapter 1
Indian Car Industry

Chapter Outline
This chapter is divided into six parts, the first part details the development in the Indian Car Industry and its evolving structure from Pre 1983 till the current stage of timeline, the second part discusses the Indian Economic Environment with the major growth drivers and challenges. The third part details the role of Small Car segment as a major Key Player in the Indian Car Industry detailing the major car companies along with the new entrants to it. The fourth part discusses the competition in the Small car industry defining the Problem of the Study. The last part of the chapter discusses the chapter schema of the entire thesis clearly establishing the flow and progression from one chapter to the next.

1.1 Indian Car Industry

History

Pre 1983

The history of Indian car industry dates as back as 1898 when the first car was seen on the streets of India. In pre-independence era cars were freely imported to satisfy the demand of the British ‘sahebs’ or the affluent few Indians. The first Indian car was made by Premier Automobiles Ltd. (PAL) in 1946 when it started assembling Dodge and Plymouth models. In 1949, Hindustan Motors (HM) of G.D. Birla made its first car that was to become the Ambassador. Till 1983 only two Indian cars were seen on the road viz. Fiat from PAL and Ambassador by HM. That was because the Indian government wanted to develop an indigenous automobile industry, for which it decided to keep out marketers that didn’t have a local factory and kept local manufacturers ‘protected’ from foreign competition. Ford, General Motors and others left the country in 1954. In two decades from 1960-1980 the demand for cars increased from 15,714 to 30,989 (SIAM Data, accessed May 4, 2006) at a compounded growth rate of just 3.5% per annum. This duopoly continued till 1983
when Government decided to venture in the car business, with a 74% stake in Maruti Udyog Ltd. (MUL), a joint venture (JV) with Suzuki Motors of Japan.

1983-2003

MUL introduced 'Maruti 800' in 1983 providing a complete facelift to the Indian car industry. The car was launched as a "people's car" with a price tag of Rs. 40,000. This changed the industry's profile dramatically. Maruti 800 was well accepted by middle-income families in the country and its sales increased from 1,200 units in 1984 to more than 200,000 units in 1999 (Business Standard, Feb-March 1999, p.20).

MUL extended its product range to include vans, multi-utility vehicles (MUVs) and mid-sized cars. The company, single handedly drove the sales of cars in India from 45,000 cars in 1984 to 409,624 cars by 1999, around 83.1% market share. (Auto India, April 2000, p.78). The de-licensing of auto industry in 1993 opened Indian markets for international automakers to tap the large population base of about 950mn people. Many companies entered the car manufacturing sector, to tap the middle and premium end of Indian car industry. The new entrants were Daewoo (Matiz), Telco (Indica) and Hyundai (Santro) in upper end segment of economy car market. This competition declined the market share of MUL to 57.6% in fiscal 2001, 58.6% in 2002 and 54.6% in fiscal 2003 primarily due to a gain of market share by three models launched by competitors in the rapidly growing upper economy car segment. Countering this MUL launched two new models Maruti Wagon R and Maruti Alto in the same segment gaining the market share to 58.6% in fiscal 2002 (Business India, Dec 23, 2002-Jan 5, 2003, p.106). This sub segmentation of the small car segment created as a new segment, the B segment, where competition further intensified among car producers with launch of new models supplemented with marketing strategies to get a larger pie of the market share. MUL managed to increase its market share in B segment from 31.3% in fiscal 2000 to 36.9% in 2001, 40.3% in 2002 and 38.6% in fiscal year 2003 (MUL Annual Report 2004-2005). The present study shall concentrate on the time frame from 2003 onwards, where it shall try to explore the competitive strategies and the marketing strategies followed by the car companies,
reflecting upon the changes that have taken place and their impacts on the Indian car industry.

**Post 2003**

1.2 Industry Structure

The Indian Car Industry post 2003 had a very wide segmentation base with a broad spectrum of demand ranging from the middle class, about 40 million “Aspiring India” to affluent class about 8 million, “Global India”. The supply side dovetailed offering a wide range of models and variants ranging from “Mini”, “Compact”, “Mid sized”, “Executive Premium” to “Luxury” cars trying to match the demand.

The study aims to focus our attention to an important segment, ‘The Small Car Segment’ within this section, of Indian car consumers the “Aspiring India” about 40 million Indian middle class household. This consumer group is reported as growing about 10 percent a year and is expected to grow to 65 million households by 2010. (Bharadwaj et. al, 2005) Price and value for money are important considerations for this segment of Indian consumer, and it aspires for a car, an important purchase decision but within their means and reach, and the products segmented, targeted and positioned towards their needs, by the Indian Car Producers – The Small Cars.

The automobile industry classification of the Indian Cars is as follows:

1.2.1 Price-based classification

The Indian car industry classification, based on the price of the car.

Segment A- Cars priced lower than Rs. 3,00,000 (3 Lakhs)

Segment B - Cars priced between Rs. 3,00,000 (3 Lakhs) and Rs. 5,00,000 (5 Lakhs)

Segment C- Cars priced between Rs. 5,00,000 (5 Lakhs) and Rs. 10,00,000 (10 Lakhs)

Segment D-Cars priced between Rs. 10,00,000 (10 Lakhs) and Rs. 25,00,000 (25 Lakhs)

Segment E - Cars priced above Rs. 25,00,000 (25 Lakhs)
1.2.2 Length-based classification

In April 2000, Society for Indian Automobile Manufacturers (SIAM) introduced a new segmentation of cars on the basis of the length of the cars, in order to establish a uniform industry standard. The new segmentation of passenger cars was designated as:

- **Segment A1 (Mini)** - cars having a length up to 3,400mm
- **Segment A2 (Compact)** – cars having a length of 3,401 - 4,000 mm
- **Segment A3 (Mid-sized)** - cars having a length of 4,001 - 4,500 mm
- **Segment A4 (Executive)** - cars having a length of 4,501 - 4,700 mm
- **Segment A5 (Premium)** - cars having a length of 4,701 - 5,000 mm
- **Segment A6 (Luxury)** - cars having a length of more than 5,000 mm

The classification of models of small cars in the Indian car industry in accordance with the length based classification and price based classification being presented in the table below:

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Name of the Model</th>
<th>Segment as per length based classification</th>
<th>Segment as per price based Classification</th>
<th>Present Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daewoo Motors India Ltd.</td>
<td>Matiz</td>
<td>A2: (Compact)</td>
<td>B</td>
<td>Discontinued</td>
</tr>
<tr>
<td>Fiat India Automobiles Pvt. Ltd</td>
<td>Fiat Palio</td>
<td>A2: (Compact)</td>
<td>B</td>
<td>Discontinued</td>
</tr>
<tr>
<td></td>
<td>Fiat Uno</td>
<td>A2: (Compact)</td>
<td>B</td>
<td>Discontinued</td>
</tr>
<tr>
<td>General Motors India Ltd.</td>
<td>Corsa SAIL</td>
<td>A2: (Compact)</td>
<td>B</td>
<td>Discontinued</td>
</tr>
<tr>
<td></td>
<td>Chevrolet Spark</td>
<td>A1: (Mini)</td>
<td>B</td>
<td>Introduced in 2008</td>
</tr>
<tr>
<td>Hyundai Motors Company Ltd.</td>
<td>Santro / Xing</td>
<td>A2:(Compact)</td>
<td>B</td>
<td>Present</td>
</tr>
<tr>
<td>Maruti Udyog Ltd</td>
<td>Maruti 800</td>
<td>A1: (Mini)</td>
<td>A</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Maruti Star</td>
<td>A1: (Mini)</td>
<td>A</td>
<td>Introduced in 2009</td>
</tr>
<tr>
<td>Company</td>
<td>Model</td>
<td>Segment</td>
<td>Status</td>
<td>Year</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------</td>
<td>------------------</td>
<td>--------</td>
<td>------------</td>
</tr>
<tr>
<td>Tata Motors</td>
<td>Indica / Xeta</td>
<td>A2: (Compact)</td>
<td>B</td>
<td>Present</td>
</tr>
</tbody>
</table>

**Figure 1. Passenger Vehicle Industry - Segment Distribution**

*Passenger Vehicle Industry – Segment Distribution*

*Relative Size of Segments*

![Graph showing segment distribution](image)


### 1.2.3 Indian Economic Environment

India with its rapidly growing middle class (450 million in 2007 as per NCAER Report), market oriented stable economy, availability of trained manpower at competitive cost, fairly well-developed credit and financing facilities and local availability of almost all the raw materials at a competitive cost has emerged as one of
the favourite investment destinations for the automotive manufacturers. These advantages need to be leveraged in a manner to attain the twin objective of ensuring availability of best quality product at lowest cost to the consumers on the one hand and developing and assimilating the latest technology in the industry on the other hand. The Government too recognized its role as a catalyst and facilitator towards encouraging the companies in moving to higher levels of competitive performance. The Government as a catalyst for growth in this industry created a wants to policy environment for helping companies gain competitive advantage. The government policies were aligned to encourage growth, promote domestic competition and stimulate innovation.

1. The Indian Automobile Industry produced 8.5 million vehicles in 2004-05 amounting to around USD 25 billion. During the financial year 2005-06, Indian Automobile Industry produced more than 9.7 million vehicles amounting to almost USD 28 billion. The growth in production was 15%. However, in value terms, the value of the market for passenger cars and CVs being higher than the market size for two wheelers (CMIE, Dec 2005).

2. Sales of passenger cars and utility vehicles have grown at 12% CAGR over the last ten years (1996-2006) (Business Today, Oct 22, 2006, p.82). However, in 2005-06 the growth rate for the passenger car segment was lower than 8%. Sales of passenger cars post 2000 have been driven by increase in the number of available models, purchasing power, especially of the Indian middle class, easy availability of car finance, favourable government policies and growth of used car market. A further reduction in cost of ownership would fuel demand for passenger vehicles.

1.3 Growth Drivers
1.3.1 Rising per capita Income

Rising per capita income and the changing demographic distribution are conducive for growth. India having the highest proportion of population below 35 years, 70%, (potential buyers), meaning that 130 million people would get added to the working population between 2003 and 2009 (Business World, March 24, 2008, p.17). The trends indicating that small and medium cars would remain dominant and a shift
towards high end cars is expected at a faster rate. Higher disposable incomes coupled with availability of easy finance options has driven the Passenger vehicle segment sales.

1.3.2 Easy availability of car finance

Availability of car finance, being one of the key factors, played an important role in the buying decision of a customer, in the passenger car market in India. Automobile finance in the past had been made available through direct selling agent of independent financing companies. Since 2002, finance products of select finance companies along with the car manufacturer’s group companies, itself has been made available to the customers, offering them a wide financing option at the car dealer outlets. For example, Maruti Countrywide Auto Financial Services Ltd., a joint venture among Maruti, Housing Development Finance Company Ltd., and GE Capital Services India Ltd., and Citicorp Maruti Finance Ltd (a joint venture between Maruti and Citicorp Overseas Investment Corporation Ltd) aggregated the finance products and offered uniform financing terms to the customers for purchasing Maruti brand cars. Maruti earned a sourcing fee from the finance company. The credit evaluation and the loan disbursement were done by the finance companies.

In February 2003, Maruti entered into an arrangement with State Bank of India (SBI), India’s largest bank with over 9,000 branches across India (branded “SBI- Maruti Finance”). SBI became the preferred financier for customers who purchased Maruti’s cars. SBI provided finance to Maruti’s customers and worked with Maruti and its dealers to develop finance packages, conduct promotional activities and generate new business. The credit evaluation of the customer and the loan disbursement to the customer were left to SBI. Maruti believed the competitive interest rates and SBI’s extensive branch network would make passenger cars affordable to a greater number of customers.

Maruti’s two subsidiaries, Maruti Insurance Brokers Ltd., and Maruti Insurance Distribution Services Ltd., had entered into alliances with insurance companies. Since May 2002, these companies had been acting as intermediaries, offering products of these alliance partners under the brand name “Maruti Insurance”. As dealers got payments on insurance claims directly from the alliance partners, the customer
benefited from a cashless transaction with regard to the repairs or spares that were covered by the insurance policy. Maruti earned sourcing revenues from the insurance companies.

1.3.3 Favourable Government Policy

1.3.3.1 Recent initiatives of the Government

Towards boosting growth in this sector, the Government has taken several initiatives. Some of them being as follows.

(i) The Finance Bill 2006 gave a further boost to the Automotive Industry by reduction of the excise duty on the small motor vehicles, the reduction in the duty for raw material between 5 to 7.5% as compared to the previous level of 10%, and the thrust on infrastructure development.

(ii) As a recommendation by the Department of Heavy Industry, towards lowering excise duty on the small cars, extension of deduction on R&D expenditure to the automotive sector, increased budgetary allocation for R&D activities in the sector and moving towards a lower duty regime have been achieved and steps incorporated to further strengthening the capability of the sector.

(iii) National Automotive Testing and R&D Infrastructure Project (NATRIP): Indian Government intervention towards automotive testing and R&D infrastructure in the country to deepen manufacturing, encouraging localized R&D, and boosting exports. NATRIP aims at facilitating introduction of world-class automotive safety, emission and performance standards in India and also to ensure seamless integration of Indian automotive industry with the global industry.

1.3.4 Expansion of Domestic Demand

In order to facilitate expansion of domestic market, following have been the set of initiatives followed by Car Industry and Government:

1. The Indian car industry aiding the acquisition of tools for faster product design and validation (IT, rapid-proto, etc.) for enhancing the capability to create and introduce products that being appropriate to the market needs at a quicker pace and on a sustainable basis. Support being extended to introduce courses on automotive design. Styling centre to be made a part of the National Institute of
Design and IITs.

2. The Indian car industry working towards bridging the gap on product quality, aesthetics, features and performance with world class products. While Government aided in establishment of Development Centres for Small and Medium Enterprise Suppliers for providing Training and Development, Consultancy, Project handling and Business Development Support Services.

3. The Indian car industry enhancing the cost competitiveness on a continuous basis towards developing domestic market. While the Government’s role examined from time to time appropriate fiscal incentives/ concessions for innovation of ‘low cost’ products that are aimed at consumers at the mass market like cost effective small goods carrier, rugged low cost rural vehicle, small safe car, low cost two wheeler, etc.

4. Government aiding car industry in rationalization and simplification of taxation and documentation for inter-state and inter-city movement of vehicles and goods,

5. An attempt being made to encourage the introduction of GST by 2010.

6. Government of India has already set up committees to look into various tax proposals and incentives. These committees would look into the elimination of embedded taxes/ levies that do not get off-set under VAT. However, it is expected that a number of state level taxes will be subsumed in GST streamlining tax structure at state level.

7. In order to boost domestic demand and create volumes for industry, government from time to time would be devising suitable fiscal and promotion policies to make India a hub for manufacture of small cars. With the view to having a coherent and consistent policy dispensation, the definition of small cars in the Auto Policy, 2002 (i.e. 3800 mm in length) will be adhered to, without any engine capacity specification.

Government being aware of the potential of this sector and fiscal concessions is being provided time to time in order to give fillip to the car industry. The tax anomalies/ problems as regards, inverted duty structures, high input prices, excessive embedded taxes and levies are also being currently addressed to by the government.
1.4 Major Challenges

1.4.1 Sustaining the growth rate

There exist a potential for much higher growth in the domestic market due to the fact that the current car penetration level in India is just 7 cars per thousand persons. The increase in purchasing power at the top echelon of about 300 million people in the country, where the per capita income is over USD 1000, implies that passenger car growth in the domestic market is on the verge of a major and sustained boom. It is expected that the passenger car market which was 1 million in 2003-2004 (Business Standard Dec 31, 2005- Jan 01, 2006, p.11) could easily cross the 3 million mark by 2015. This would lead to an increase in the size of the domestic auto-component market from the current level of USD 9.8 billion (2005-06) to at least USD 15 billion by 2015 (Auto Policy 2002).

1.4.2 Need for innovation

The competitiveness in the automobile sector would largely depend on the capacity of the industries to innovate and upgrade. Indian car industry would also benefit if it has strong domestic competition, home based suppliers and demanding domestic customers. It is also obvious that the factors like labour cost, duties, interest rate and economies of scale are the most important determinants of competitiveness. But productivity is the prime determinant of the competitiveness and also impacts the national per capita income. The globally successful OEMs and auto makers will ultimately make their base in India which is high on productivity factor and where essential competitive advantages of the enterprise can be created and sustained. It would also involve core products, technology creation and their marketing process apart from maintaining productive human resource and reward for advanced skills.

The OEMs would also look for the policies of the state which stimulates innovations in new technologies.
Figure 2. Market Overview: Growth drivers for the Indian automobile industry

Market Overview
Growth drivers for the Indian automotive industry

- Economic growth
- Government policies
- Lower duties & taxes
- Contemporary products
- Shorter life cycle
- New product launches
- Increasing consumer demand
- Cost competitiveness
- Export competitiveness
- Reduced cost to consumer
- India emerging as a manufacturing hub

Source: IBEF (Indian Brand Equity Foundation), Automotive, www.imacs.in

1.5 Indian Car Industry – Key Players in Small Car segment

1.5.1 Maruti Udyog Limited – Maruti Suzuki

Suzuki’s Joint Venture in India and the largest passenger car manufacturer in India.

In 2003 Maruti Udyog, a joint venture between Suzuki of Japan and the Indian Government, dominated India’s automobile market with a 54% market share (CMIE Database, June 2003). With an annual production capacity of 500,000 cars, Maruti had the widest product range among Indian car manufacturers, with ten basic models and more than fifty variants. Three out of the top-five-selling car models in India (Maruti 800, Zen and Omni) were Maruti products. The Maruti 800, the Omni, the Zen and the Esteem became market leaders in their respective segments. The company
dominated the Indian small car market with a share of 100% in ‘A’ segment, 36% in ‘B’ segment, and 86% overall. (Business India, May 26, 2003) (See Table I).

The 800cc car, the first and by far the most popular model produced by Maruti, had given a new dimension to the Indian car industry. MUL underwent through various restructuring exercises to strengthen its competitive position. In 1994, Maruti became the first Indian company to reach a cumulative production of 1 million vehicles. In 1997, it crossed the 2 million mark. In 1997-98, Maruti’s overall market share was 83.1% (Maruti Red Herring Prospectus). In the early 2000s, Maruti introduced various measures to streamline its operational efficiency and marketing effectiveness. In May 2007, Maruti Udyog Limited (MUL), has reported a 9.9% increase in the sales of domestic vehicles at 55,952 units as against 50,904 units in May 2006. It exported 3,448 units in May 2007 as against 2,492 units in May 2006 up by 38.4%. This resulted in a 11.2% increase in total sales in May 2007, at 59,400 units, as against 53,396 units in the same month in 2006.

Maruti’s manufacturing facility comprised three integrated plants with flexible assembly lines at Gurgaon. The first plant was set up in 1984 with an installed capacity of 20,000 vehicles per annum. This was augmented to 130,000 by 1991. Installed capacity was further increased in 1995 to 200,000 vehicles per year with the second plant becoming operational. In 1996, Maruti increased its installed capacity to 250,000. With the third plant becoming operational in March 1999, installed capacity increased to 350,000. The company’s fourth car assembly plant, inaugurated on February 06, 2007, started with an initial capacity of 100,000 cars per year. This would be scaled up to 300,000 cars per year. An investment of Rs. 2,500 crore would be made in this car plant by 2010. The new assembly plant is also a key step forward in the MUL’s goal of achieving annual sales of 1 million cars in India by 2010.

Recently introduced car models in the small car B+ segment include a new version of Zen Estilo, and an A1 segment hatchback model “Maruti A Star” launched in (November 2008. This car has been designed for the global markets. Maruti A-Star, is the fifth global strategic model from Maruti Suzuki. The car would be manufactured simultaneously in several countries. It would be sold under the name of Alto and Celerio in Europe and other countries respectively. It would help Suzuki re-
entering the European markets with a new fuel efficient car powered by an eco-friendly engine that complies with Euro IV and Euro V emission norms.

Another hatchback car Ritz would be launched in Indian market on May 15, 2009. (Automonitor.co.in, November 2008) Maruti Ritz with contemporary European design, would be positioned at premium A2 market segment, which includes Alto, WagonR, Swift, Zen and the newly launched A-Star. The launch of new hatchback passenger car would further strengthen Maruti's leadership in the highly competitive compact car segment. With 52 percent market share, Maruti Suzuki presently leads the premium A2 segment

1.5.2 Tata Motors

*The largest player in Indian industry. An SBU of the Tata group.*

On June 1, 1945, Tata Sons Limited (Tata Sons) bought the Tatanagar Shops (also called the Singbhum shops of the East Indian Railway) from the Government of India to manufacture steam locomotive boilers. It intended to extend its operations later to building complete locomotives and other engineering machinery. This project was set up as a new company by Tata Sons and was called the Tata Engineering and Locomotive Company Ltd. which was commonly known as Telco. Today, its manufacturing base is spread across India - in Jamshedpur (Jharkhand), Pune (Maharashtra), Lucknow (Uttar Pradesh), and Pantnagar (Uttarakhand).

In December 1998, Tata Motors launched the first indigenously developed compact car, the Indica. The model was displayed at the Auto Expo'98, where it was projected with the "Made in India" image,. The Indica project was named Project Mint (short for Mini Telco), when it was commissioned. This car was partly designed and developed by Tata Motors, the original design being that of the French car manufacturer Peugeot.

In January 2007, it was reported that Tata Motors Limited (Tata Motors) beat close rival Hyundai Motor India Limited (HMIL) to capture the second position in the fast growing passenger car market in India, behind market leader Maruti Udyog Limited (MUL). In December 2006, Tata Motors' car sales stood at 12,665 units against HMIL's 11,049 units (Indian Express, 2007).
The growth for Tata Motors came in the compact car segment, primarily driven by the strong performance of the Tata (Indica) range. In January 2007, the Indica reported its highest ever monthly sales since launch, at 14,466 units, a growth of 14% over January 2006 (Tata Motors Annual Report 2007-08).

Industry analysts said that this growth was mainly due to the launch of the Indica V2 (Xeta) in January 2006, and subsequently its revamped version in November 2006. (Siddharaj, 2006)

Tata Motors' sales and distribution network in India consisted of 720 dealer outlets which were supported by eight regional offices, 28 regional sales offices and 38 sub-regional offices. Most of the dealers were exclusive dealers.

The company had a presence at over 2,000 locations in India, including after-sales and vehicle servicing outlets.

1.5.3 Hyundai Motors India Ltd.

_The third largest passenger car manufacturer in India, and one of the largest exporters of vehicles. Has established India as one of its manufacturing bases in the world._

Hyundai Motor India Limited (HMIL) being a wholly owned subsidiary of Hyundai Motor Company, South Korea and the second largest and the fastest growing car manufacturer in India. HMIL presently markets 34 variants of passenger cars across segments. The Santro in the B segment, Getz Prime, i10 in the B+ segment, the Accent and Verna in the C segment, the Elantra in the D segment, the Sonata Embera in the E segment and the Tucson in the SUV segment.

Hyundai Motor India, continuing its tradition of being the fastest growing passenger car manufacturer, registering total sales of 327,160 vehicles in the calendar year (CY) 2007, an increase of 9.2 percent over CY 2006. In the domestic market it recorded a growth of 7.6 percent as compared to 2006 with 200,412 units, while overseas sales grew by 11.8 percent, with exports of 126,748 units (SIAM Data).

HMIL’s fully integrated state-of-the-art manufacturing plant near Chennai has the most advanced production, quality and testing capabilities in the country. In
continuation of its commitment to provide the Indian customer with global technology, HMIL is setting up its second plant, which will produce an additional 300,000 units per annum, raising HMIL’s total production capacity to 600,000 units per annum.

HMIL is investing to expand capacity in line with its positioning as HMC’s global export hub for compact cars. Apart from expansion of production capacity, HMIL plans to expand its dealer network, which will be increased from 230 to 300 this year.

The year 2007 had been a significant year for Hyundai Motor India. It achieved a significant milestone by rolling out the fastest 400,000th export car. Hyundai exports to over 73 countries globally; even as it plans to continue its thrust in existing export markets, it is gearing up to step up its foray into new markets. The year 2007 also saw Hyundai Motor India attainment other milestones with the launch of the i10 and yet another path-breaking record by manufacturing the fastest 15,00,000th car (Hyundai Motors India Ltd. Annual Report 2008-09).

HMIL has also been awarded the benchmark ISO 14001 certification for its sustainable environment management practices.

1.6 Indian Car Industry – (New Entrants) in Small Car segment

1.6.1 General Motors

General Motors, one of the leading players in the premier cars segment. Recently launched Chevrolet Spark in the small car segment and Chevrolet Aveo Hatchback in the upper economy B+ segment

1.6.2 Volkswagen

Volkswagen is investing 400 million euro in a new plant in Pune for the manufacture of a new compact car, the VW Fox, for the Indian Market. Operations are to start in the second half of 2009.
1.6.3 Honda

Honda is investing US $ 250 million in a new plant in Rajasthan with a capacity of 60,000 cars per year. Honda Jazz, introduced in the compact segment for the Indian market. Production commenced in 2009.

1.6.4 Ford

Ford plans to invest US $ 500 million for its compact car for the Indian market, including the expansion of Ford India's current manufacturing facility in Chennai.

Figure 3. Comparative Market Share – Passenger Cars (Apr- March 2006-07 and 2007-08)

Source: Automotive Component Manufacturers Association (ACMA), Industry Statistics, 2006-08 (passenger cars market share)
1.7 Manufacturing Process and Technology

Figure 4. Manufacturing Process and Technology

Source: Maruti Udyog Limited, Red Herring prospectus

Car manufacturing is basically assembly of components procured from ancillaries or auto component manufacturers. Nearly the car manufacturers outsource 80% of auto components. This helps in reducing the capital cost needed to setup a car manufacturing plant.

Therefore, auto ancillaries play a key role in maintaining the quality and price of the product. But till the entry of MUL in the Indian car industry, vendor development was hardly seen as a part of automobile manufacturing in the country. With the setting up of auto component manufacturing facilities by Indian promoters, in collaboration with Japanese players for supply to MUL, the country was first introduced to the concept of outsourcing.

With the new entrants planning to start manufacturing facilities with a small capacity base in the country, the role of auto component players will substantially become important over the years.
1.8 Technology – Environment and Safety Regulations

As far as the changes in technology are concerned than one change will be that all the cars will have to be fitted with Multi Point Fuel Injection (MPFI – a technology in which traditional carburetor is required and fuel is sprayed by different valves into the combustion chambers of an engine). This change being the outcome introduction of Mass Emission Norms, introduced in 1991 for petrol vehicles and in 1992 for diesel vehicles. These norms have been progressively made stringent and India has followed the European emission standards and test procedures. Environment concerns led to India narrowing the gap with Euro norms at a rapid pace and currently BS-II or Euro II equivalent norms are in force throughout the country and BS-III or Euro-III norms in eleven cities. This led to changes in cars as Euro II/Euro III certified.

Secondly due to change in consumer preferences there have been technological advancements in air conditioning, power steering, power windows and such other facilities which are now available as a standard feature on the deluxe variants of almost all the cars. Developments too have taken place in the safety aspect of the car with cars becoming sturdier with side impact bars; air bags, collapsible steering etc. are becoming more and more popular due to safety regulation norms in India with carmakers incorporating these technologies in small cars.
1.9 Competition in the Indian Small Car Industry

There has been severe competition along with global and domestic turn of events, which has resulted in complete restructuring of share of the car companies and their products in the Indian car industry over the last five years. Many products were taken off the market and many new models were replaced or repositioned. Daewoo Motors wound up and Matiz production was discontinued. Fiat was taken over by Tata Motors, Fiat Uno was discontinued and marketing of Palio was undertaken by Tata Motors, along with its own brand Indica. General Motors discontinued Corsa SAIL and entered with Chevrolet Spark in 2008. Hyundai Santro was repositioned as Santro Xing; Maruti 800 too was repositioned, although it remained in the same segment. MUL introduced Maruti Alto and Wargon R extending the breadth of the segment. Zen was also repositioned as Zen Estillo. MUL also introduced two more models in the A1 Mini segment, the A-Star and Maruti Ritz in the B, A2(Compact segment), making way for phasing out Maruti 800.
Each time a model was positioned, it was followed by a focused marketing strategy, along with a change in product, an introduction of a new variant, a change in brand personality / image, pricing and communication. This also resulted in competitive reactions for competitors and other market players. They reacted by, altering their marketing strategy to reestablish the disturbed market positions of their products in the altered market place.

1.10 Vision for the Future

The opportunity landscape for the Indian small car industry would encompass manufacturing of vehicles and components for domestic sales, and exports. It is estimated that the total turnover of the automotive industry in India would be in the order of USD 122-159 billion in 2016 (a substantial increase from the size of USD 34 billion in 2006)( Autocar, Jan 2007).

It is expected that in real terms, by 2016, India would emerge as the world's seventh largest car producer (as compared to the eleventh largest currently). Further, by 2016, the automotive sector would double its contribution to the country's GDP from current levels to about 10%. The share of industry in GDP is expected to go up to around 35% from current level of 24% by 2016.(Automotive Mission Plan 2006-2016)

Currently the automotive industry employs 200,000 persons in vehicle manufacturing, 250,000 in component companies and 10 million at different levels of the value chain - both through backward and forward linkages. The expected growth in investments and output of India's automotive sector during the next 8 years will create further employment opportunities in the country. Additional 25 million jobs are likely to be created by way of both direct and indirect employment in automotive companies and in other parts of the vehicle value chain such as servicing, repairs, sales and distribution chains.

1.11 Definition of the Problem of Study

The Study Marketing Strategies in the Indian Car Industry with a Special Reference to Small car segment was defined to assess the competitive marketing scenario in the Indian small Car Industry. It proposed to study competition both at the macro level (competitive strategies of the firms) and at operational level, marketing
strategies employed by small car companies for their B segment cars, in this industry.

1.11.1 Current state of Competition – Research Issues

The Indian car business environment has been varying continuously, as all its elements changed with the entry of transnational enterprises. It changed the production and cost structures, and expanded the product, number of car models and variants and price range in the Indian passenger car industry 1990s onwards (Business World, Jan 22, 1998, p.32). Similarly, factors like markets and policies changed over time further influencing the demand and supply structures and thus prices of goods and services and thereby profitability and commercial viability of firms changed. This change was instrumental in developing the Indian consuming class who had a rising per capita income and the rapidly changing demographic distribution. India having the highest proportion of population below 35 years, 70%, (potential buyers), it was estimated that 130 million people would get added to the working population between 2003 and 2009. The trends indicating the high demand need for small and medium cars. Higher disposable incomes coupled with availability of easy finance options have been the driving forces for the small car section of the Indian car industry.

The level of competition and the presence of transnational enterprises intensified competition compared to domestic firm. There were entry of many firms in the car industry to supply the demand and exit of many firms which could not survive the competition. Variations in the business environment, however, forced successful firms to strive continuously to succeed i.e., to maintain and improve its commercial viability in the face of changing environment. It was the level of competition that motivated firms to improve their competitiveness to survive i.e., to maintain and improve its commercial viability through different strategies. Strategies can be long term competitive strategies or, short term example tactical strategies like marketing strategies altering marketing mix such as price changes, aggressive advertisements, strengthening distribution channels, repositioning the existing products in the market, strengthening customer care services etc. Firms that selected appropriate technologies, products and scale improved their competitive strength and thus maintained or, improved their market position. They create competitive pressures on the other firms to follow suit. Firms like Daewoo Motors that could not follow suit would be forced
out of the market. New firms that perceived business opportunities entered the empty area, and the process goes on.

Thus, the process of competition prompts firms to seek and exploit opportunities for gaining. This results in the efficient resource utilization and hence high growth and being competitive. This process enables firms to provide adequate supplies of wide range of quality products at cheaper prices thereby widening the choice of consumers leading to customer satisfaction and market development.

1.1.2 Selection of the car manufacturers for study

Three car manufacturing companies who were in the business of producing small cars for a minimum of 10 years and having a major share (more than 75%) in the entire market, with a number of car models/variant were shortlisted as key player from among all the players in the Indian small car industry. The reason for their selection also, being their stable operations in the Indian Car Industry and their market share over more than a decade. They having attained the Industry learning curve and being important constituents of the industry were analyzed and compared; the chosen companies and selection criteria follow.

Maruti Udyog Limited MUL, Hyundai Motors India Ltd. HMIL, Tata Motors (earlier TELCO (Tata Engineering and Locomotive Company) were chosen because of their status as stable Indian car manufacturing companies who have been in the automobile business for many years. Hyundai Motors India Ltd., Maruti Udyog Ltd, and Tata Motors, were chosen based on their product base – Small Car producers in the category A1 (Mini) and A2 (Compact) segment in the Indian Car industry.

1.1.3 Research strategy

These three companies are analyzed in terms of their competitive strategy and their marketing strategy delimiting for their B segment cars. Specific statistics have been incorporated into the analysis the data which was obtained for the two levels of the study, firstly quantitative data obtained from intending car buyers and the effect of the marketing mix analyzed for its interaction and effect in shaping intending purchase decision for a specific brand of car. Secondly the research employed a qualitative approach to try to get information from the strategy makers. By incorporating the use
of interview as the instrument for the second part of study the marketing and the competitive strategy position of the three car companies were identified. The marketing strategy for each flagship car of the company in their B segment was studied. The reason for delimiting the study to the 3 cars in the B segment was that the B segment was the most competitive segment among the small car category and these three competing cars occupied a combined market share of about 80% of the small car market. Thirdly all the three cars were very popular and were in the maturity stage of their PLC and the three car companies had recently relaunched them with new Product, Price and Promotion strategies, repositioning them with a new image. So the new marketing strategy which including the four marketing mix elements of Product, Price, Place, Promotion and, and the effect of new model introduction on the other competing models in the market and the change in marketing strategy of the affected brands and car models of competing organization was attempted to be explored in the research strategy. The examination of the small car industry as a whole and of the major players in the industry provides a framework within which insightful conclusions can be derived about the current state and future of the small car segment and marketing strategy in the Indian car industry.

1.12 Chapter Schema
The thesis work has been divided into six chapters; a brief outline of the chapter schema is presented in the following paragraph. Chapter 1 introduces the Indian Small Car Industry breaking the timeline into three distinct eras and discussing the evolution till the recent state of research. It also discussed the major changes in the Indian economic environment along with growth drivers and challenges as the driving forces associated with the changes. Exploring the role of the Small Car Industry, the state of competition and defining the problem of the study. Chapter 2, “Marketing Strategy” of this study studies the marketing concept illustrating its different facets as it has been explored and developed over a period of time different management authors and social scientists, the associated link between marketing strategy and competitive strategy is established after exploring the different marketing strategy models. The research direction was established at exploring the relative Generic strategy followed by the competing car companies towards obtaining competitive advantage for
themselves. Porter’s framework was selected towards achieving this end. Chapter 3 titled “Review of Literature” of this study illustrates extant literature relevant to the marketing strategy dimension in both Indian and international automobile and auto component related industries. The last section of this chapter related to the research framework, posed study model and the conceptualization of the hypotheses. The chapter 4 titled, “Research Methodology”, details the research methodology adopted to investigate the study model and the objectives framed. This chapter also discusses the development of the research instrument for both the qualitative and the quantitative methods adopted to conduct the research. Chapter 5, titled “Analysis and Interpretation” discusses the responding car industries reactions and responses in both the qualitative and quantitative perspectives. Subsequent subsections of this chapter are dedicated to discussion and description of the main results in this section that emerged from statistical analysis for the Indian Small Car Industry. Furthermore in this chapter, results of the empirical analysis and the hypothesis testing have been presented. Finally Chapter 6 titled, “Conclusion and Recommendations” draws key conclusion of this study and discussed the recommendation for Small Car Industry to incorporate the deficient marketing mix strategies for their B segment cars in order to achieve the competitive advantage which they were aiming for. The social concern of the study to be addressed, by the car companies were also highlighted in this chapter. The chapter also indicates the limitations and areas of future research.