Chapter-3

REVIEW OF LITERATURE
Chapter 3

Review of Literature

Chapter Outline

This chapter presents an exhaustive literature review of marketing strategy dimensions in context of Indian and international industries. The discussion in this chapter is centered on how to have a deeper and exhaustive understanding of marketing strategy, the various interacting dimensions viz. marketing mix strategies and their overall application in shaping the competitive advantage for the different industries. This being the core objective of literature review for this research. Furthermore the chapter explores the topic specific to the B segment cars within the Small Car segment of the Indian Car industry from both the industry as well as consumer’s perspective.

3.1 Dimensions of the Indian Car Industry

Automobile is one of the priority sectors of Government of India. Due to growing domestic automobile market and the export policy of Government of India, the automobile industry is poised to grow fast. Another factor which impacts on motor vehicle sales, is that an increasing number of manufacturers are competing to supply a market of the same size. In this environment, global giants are using outsourcing as a means to cut the cost to gain competitive advantage. In this scenario Indian companies like Maruti Udyog Limited have emerged as leaders in Indian automobile industry. India having all the potential is poised to emerge as world hub for manufacturing small cars. In the value chain distribution and car dealers are an important link in automobile marketing. They play crucial role in growth of the industry.

Society of Indian Automobile Manufacturers (SIAM), 1999 reported in its study that the scenario in domestic Indian Automobile Industry is quite different from the Global Automobile Industry. The industry actually developed in two clear stages the Maruti era (1983) and the post liberalization era (1992). Compared to the global automobile sector, where substantial research has been done, very little
empirical research has been conducted on the Indian automobile industry, developed a set of recommendations for developing Indian automobile industry.

3.1.1 Competitiveness Factors of Indian Auto Industry

As noted by NMCC (2006), competitiveness of manufacturing sector is a very broad multi-dimensional concept that embraces numerous aspects such as price, quality, productivity, efficiency and macro-economic environment. The OECD definition of competitiveness, which is most widely quoted, also considers employment and sustainability, while being exposed to international competition, as features pertaining to competitiveness. There are numerous studies on auto industry in India, published by industry associations, consultancy organisations, research bodies and peer-reviewed journals.

3.1.1a. Global Comparisons

The Investment Information and Credit Rating Agency of India (ICRA, 2003) studies the competitiveness of the Indian auto industry, by global comparisons of macro environment, policies and cost structure. This has a detailed account on the evolution of the global auto industry. Cost efficiency being the only real means in as mature an industry as automobiles to retain or improve market share, global auto manufacturers have been sourcing from the developing countries. India and China have emerged as favourite destinations for the first-tier OEMs since late 1980s.

ICRA (2004a) analyses the implications of the India-ASEANs Free Trade Agreements for the Indian automotive industry. ASEAN economies are globally more integrated than India. The current size of Indian and ASEAN market for automobiles is more or less the same but the Indian market has a larger growth potential than the ASEAN market due to the low level of penetration. The labour cost is low in India but the stringent labour regulations erode this advantage.

ASEAN-member-based companies. Similar findings are noted in a study by the Automotive Component Manufacturers Association of India (ACMA, 2004), particularly in comparison with Thailand.
ICRA (2005) studies the possible impact of FTA with South Africa on the Indian automobile industry. The study finds that there are a few policies in South Africa that indirectly subsidise the auto industry, unlike India, in terms of financial grants. Hence it is suggested that India could minimize losses only if it goes for inclusion of certain auto components, which involve huge logistic costs of imports, creating a natural protection (for example, stampings, glass, seats, plastics and tyres) and those in which India enjoys economies of scale and is cost-competitive (e.g. castings and forgings) in this FTA.

3.1.1b. Policy Environment and Evolution of Indian Auto Industry

In this section, studies on the policy environment pertaining to the Indian auto industry and its evolution over the years have been reviewed.

D’Costa (2002) found that MUL’s success is in terms of scale economies, first-comer advantage, affordability, product novelty, consumer choice, financing schemes and extensive servicing networks would have performed as well, even in the absence of bureaucratic support. D’Costa has other criticisms about Pingle (2000). The major shortcoming of Pingle’s study is that it ignores the issues related to sector specific technologies and regional differences across the country.

Piplai (2001) examines the effects of liberalisation on the Indian vehicle industry, in terms of production, marketing, export, technology tie-up, product upgradation and profitability. Till the 1940s, the Indian auto industry was non-existent, since automobile were imported from General Motors and Ford. In early 1940s, Hindustan Motors and Premier Auto started, by importing know-how from General Motors and Fiat respectively. Since the 1950s, a few other companies entered the market for two-wheelers and commercial vehicles. However, most of them either imported or indigenously produced auto-components, till the mid-1950s, when India had launched import substitution programme, thereby resulting in a distinctly separate auto-component sector.
In August 2006, a Draft of Automotive Mission Plan Statement prepared in consultation with the industry was released by the Ministry of Heavy Industries and Public Enterprises. This was finally released as a report in December 2006. This document draws an action plan to take the turnover of the automotive industry in India to US$145 billion by 2016, accounting for more than 10 per cent of the GDP and providing additional employment to 25 million people, by 2016. A special emphasis is laid on small cars, MUVs, two-wheelers and auto-components. Measures suggested include setting up of a National Auto Institute, streamlining government / educational / research institutions to the needs of the auto industry, upgrading infrastructure, considering changes in duty structure and fiscal incentives for R&D. Similarly, NMCC (2006), which lays down a national strategy for manufacturing, recognises the importance of the Indian automobile and auto-component industry, particularly the latter, as a competitive knowledge-based industry with immense employment generation potential.

McKinsey (2005) predicts the growth potential of India-based automotive component manufacturing at around 500 per cent, from 2005 to 2015. This report describes the initiatives required from industry players, the Government and the ACMA to capture this potential. This study was based on interviews and workshops with 20 suppliers and 7 OEMs and survey with ACMA members. Increase in cost pressures on OEMs in developed countries, coupled with the emergence of skilled, cost-competitive suppliers in Low Cost Countries (LCCs), is likely to facilitate further acceleration of sourcing of automotive components from LCCs. The analysis identifies strong engineering skills and an emerging culture of cost-competitiveness as the major strengths of the Indian auto component sector, while its weaknesses include slow growth in domestic demand and structural disadvantages such as power tariffs and indirect taxes.

ACMA (2006) notes that India’s joining the WP (Working Party) 29: 1998 Agreement for global harmonisation of automotive standards, coupled with the funding of National Automotive Testing and Research Infrastructure Project (NATRIP) by the Government of India, has increased prospects of the Indian auto industry rising up to global standards in the near future, in all aspects.
3.1.1c. Growth of Small Car Segment

Kumar D.K. (2003) As a price sensitive nation with low incomes, small cars will play a large role in the Indian automotive industry in the times to come. The customers will prefer to buy A & B segment cars due to the obvious benefits of low purchase price and low operation costs. However, it is becoming a major challenge to produce small cars at a reasonable profit due to increasingly stringent regulations, intense competition, huge idle capacity and increasing customer expectations of quality and new products. Automobile Industry has to continuously upgrade and meet the challenges in order to survive in the post WTO world.

3.1.1d. Technological Upgradation – A Strategic advantage

Narayanan (1998) analyses the effects of deregulation policy on technology acquisition and competitiveness in the Indian automobile industry during the 1980s and finds that competitiveness has depended on the ability to build technological advantages, even in an era of capacity-licensing. In a liberalised regime, this would depend on firms’ ability to bring about technological changes, as inferred from the behaviour of new firms in the sample considered. Further, vertical integration could score over subcontracting in a liberal regime. This is probably because of the entry of new foreign firms that produce technologically superior and guaranteed quality vehicles and choose to produce most of the components in-house.8 Narayanan (2004) analyses the determinants of growth of Indian automobile firms during three different policy regimes, namely, licensing (1980-81 to 1984-85), deregulation (1985-86 to 1990-91) and liberalisation (1991-92 to 1995-96). Unlike the prediction by Narayanan (1998), this study finds that vertical integration is detrimental for growth in a liberalised regime as it potentially limits diversification.
Narayanan (2006) also finds that vertical integration plays a positive role in a regulated regime, while it is not conducive for export competitiveness in a liberal regime.

Kathuria (1995) notes that the time-bound indigenization programme for commercial vehicles in the 1980s facilitated the upgradation of vendor skills and modifying vehicles to suit local conditions, which demand functional efficiency, overloading capabilities, fuel economy, frequent changes in speed and easy repair and maintenance. Kathuria also mentions that the choice between vertical integration and subcontracting crucially depends on the policy regime: In a liberal regime, vertical integration may not work.

3.1.1e. Productivity Elements

Sharma (2006) analyses the performance of the Indian auto industry with respect to the productivity growth. Partial and total factor productivity of the Indian automobile industry have been calculated for the period from 1990-91 to 2003-04, using the Divisia-Tornquist index for the estimation of the total factor productivity growth. He finds that the domestic auto industry has registered a negative and insignificant productivity growth during the last one and a half decade. Among the partial factor productivity indices only labour productivity has seen a significant improvement, while the productivity of other three inputs (capital, energy and materials) haven't shown any significant improvement. Labour productivity has increased mainly due to the increase in the capital intensity, which has grown at a rate of 0.14 per cent per annum from 1990-91 to 2003-04.

3.1.1f. Vendor Development, Supply Chain and Industrial Structure

In this section, the studies that examined the aspects pertaining to local and global auto supply chains as well as the structure of the Indian auto industry are reviewed.

Humphrey (1999) compares the impact of globalisation on supply chain networks in the auto industry in Brazil and India. According to Humphrey, global auto industry hubs were situated in three regions, namely, North America, Western
Europe and Japan. Brazil and India are examples of the countries which could develop the indigenous auto industry despite not being situated very close to any of these regions. Hence, Humphrey compares the auto industries in these two countries. This study considers auto industry as a producer-driven commodity chain, wherein global auto assemblers control the entire supply chain from components to dealerships.

Sutton (2000) compares the auto-component supply chains in India and China, based on field surveys. In both these countries, the supply chain has developed very rapidly at the level of car makers and Tier-1 suppliers, with quality levels close to world standards, largely driven by the entry of multinational car makers. But, the Tier-2 suppliers are still not up to the global standards. The domestic content requirements, based on the infant industry argument, have helped the international car makers in enhancing the production capabilities of the domestic players effectively, as shown by increases in auto-component exports from India and China.

Tewari (2000) studies the automotive supply chain of Tamil Nadu, based on field surveys. Studies such as Humphrey (1999) show that entry of global auto majors in India and Brazil have impeded domestic firms, because of ‘follow source’, while this study shows evidence for the fact that medium-sized firms, which entered in the mid-1990s in Tamil Nadu have formed networks with smaller domestic suppliers and helped them upgrade their technologies. These medium-sized suppliers require more support from the government, since they play a crucial role in facilitating the development of the domestic auto industry. Joint ventures and technical tie-ups with overseas suppliers have been the strategies that were followed by well-performing auto component manufacturers, long before the global auto majors entered India. These relationships and the entry of foreign OEMs not only promote employment and income, but also diffusion of technologies and knowledge to the entire supply chain, including smaller firms.

Veloso and Kumar (2002) provide an overview of the major trends taking place in the global automotive industry, emphasising on the Asian market. Consumer preferences, government regulations and intense competition have been driving
the firms towards new technologies, modernisation, research and changes in design and production. Market saturation in Triad regions (the United States, Western Europe and Japan) and rapid emergence of markets in Asia have led to increasing diversity in market needs. As a result, there are many models and segments coming up rapidly.

3.1.1g. Research & Development and Technology Changes

Kathuria (1996) analyses the Commercial Vehicles (CV) industry in India in a detailed manner, dwelling on the concepts of vertical integration and subcontracting, production technology and technological change. To evaluate the competitiveness of Indian commercial vehicles manufacturers in the domestic market, growth trends, structural trends, market shares, profitability, productivity ratios, prices, quality, dealer network and performance are analysed.

Narayanan (1998) finds based on an econometric analysis, finds that competitiveness has depended on the ability to build technological advantages, even in an era of capacity licensing. This is facilitated by complementing imported technology with in-house R&D efforts.

Narayanan (2004) uses two-way fixed effects estimation of the firm growth as a function of variables capturing technology, such as R&D expenditure as a proportion of sales, foreign equity participation and import of capital goods. Role of technology depends on the technological regime in which the firm operates. In a licensed regime, firms with foreign equity grow faster because of better access to resources and technology. In a deregulated regime, import of capital goods has been the technology-related variable that triggered growth. In a liberal regime, growth is positively influenced by the intra-firm technology transfer.

3.1.2 Strategic Actions

3.1.2a. Market entry strategy

Coeurderoy and Durand, (2001) found that market share of a firm is positively influenced by early entrants and cost leadership The order of entry strategy refers to the firm’s or brand’s timing of entry and sequence into new markets (Schoenecker and Cooper, 1998). It is also referred to as pioneering or early
entrant advantage. A number of research works have been done over the years to empirically evaluate the linkage between order of market entry and business performance (Robinson and Fornell, 1985; Urban et al., 1986; Lambkin, 1988; Robinson, 1988; Carpenter and Nakamoto, 1989; Alpert et al., 1992; Kalyanaram and Urban, 1992; Lambkin, 1992; Brown and Lattin, 1994; Huff and Robinson, 1994; Murthi et al., 1996; Shankar et al., 1998; Lee et al., 2000; Alpert et al., 2001; Rettie et al., 2002; and Mittal and Swami, 2004). These studies have been useful in generalizing the effect of order of market entry on business performance, as also in offering insights into the rationale for these linkages. Consistent with the recent work in this area, the present study attempts to generate more evidence for the growing body of research in the area of order of market entry. The contribution of this study lies in providing evidence from a developing country like India and evaluates the impact of order of market entry on business performance. A brief literature review on the order of entry, specifically on the research studies that have established linkage between order of entry and business performance is presented. Then, the outline of the current research for order of entry strategies in the Indian context is given. Finally, the results and implications of the research are discussed.

3.1.2b. Market Concentration and Competitive Structure of Firm

(Kato 2005) examines the impact of competition on competitiveness in Indian industry. It examines the competition-related issues, following the international trend, in the broader framework of structure-conduct-performance (SCP)

Shiva Ramu (1998) and Roy (1999) deal with the mergers and acquisitions – an important competition-related issue. The study focuses on the changes in market concentration and power in the reform period and the impact of reforms especially trade liberalisation on concentration/ market power.

Ramaswamy (2006) investigates whether there have been any changes in the market concentration for the selected consumer goods industries in the Nineties i.e., 1993-94 to 2002-03. Market concentration is analysed through the concentration ratios and import penetration ratios. For the purpose of analysis, this
study uses *CMIE Market Size and Market Shares* and observes changing Herfindahl index for many industries considered in the study.

Kato (2005) analyses the impact of product market competition and corporate governance on the level and growth of productivity in the Indian manufacturing sector in the 1990s. The study measures competition as the weighted sum of Herfindahl index, import ratios and market share of firms.

Goldar and Agarwal (2005) study the effect of trade liberalisation on price-cost margins in 137 three-digit industry groups for the time period of 1980-1 to 1997-8. Annual Survey of Industries (ASI) and CMIE – Prowess data are used. Their analysis shows that trade liberalisation in terms of lowering of tariffs and removal of quantitative restrictions on imports in 1990s has a significant pro-competitive effect in terms of bringing down the price-cost margins particularly in more concentrated industries.

Gokarn and Vaidya (2004) examines the market shares and concentration ratios in the automotive components industry for the period 1991-92 to 1996-97 using CMIE data on Market Size and Market Shares. This study concludes that most of the auto component markets reveal high concentration ratios along with the stable market shares of the firms.

Joseph (2004) investigates the market structure and behaviour of firms in various segments of electronics industry for the period 1991-97 using CMIE Prowess, and Market Size and Shares. Market structure is proxied by four-firm concentration ratio and conduct of the firms in terms of product differentiation, advertisement expenses, technology imports and in-house R&D. The study observes rising concentration ratios in this industry in the period under consideration.

Pandey (2004) studies the impact of trade liberalisation on the price-cost margins among other things, using data from Annual Survey of Industries (ASI) and Directorate General of Commercial Intelligence and Statistics (DGCIS) for the years 1980-81, 1988-89 and 1996-97. Empirical evidence relating to both import penetration and price-cost margins is mixed.

NCAER (2001) examines the evidence for market power in Indian industries during 1980-1997 in terms of price-cost margins. For the purpose of analysis, RBI panel data for public limited companies are used. Analysis shows mixed results across industry groups. Consumer goods industries with limited number of companies showing rising mark-ups. Profit margins, on an average, higher during 1990s compared to that of the 1980s.

Chand and Sen (1998) examine the relationship between trade exposure and domestic market power over sixteen years from 1973-88. Trade exposure is considered both in quantity and price competition. Market concentration is proxied by four-firm concentration ratio (CR4) and the domestic market power by price-cost margins. Their analysis is based on 30 three-digit industry groups for which production related data is obtained from Annual Survey of Industries (ASI) and trade related data from UN database. Their empirical analysis shows that trade exposure has had a dampening effect on domestic price behaviour.

Kambhampati (1996) probes into the structure, conduct and performance of the Indian industry for the period 1970-85 using both aggregate (three-digit) industry groups and firm-level data. Aggregate analysis used ASI data and firm-level analysis is based on RBI panel data on public limited companies. This study observes declining concentration ratios over time in most of the Indian industries. Economies of scale and demand growth turn out to be important determinants of market concentration. In the concentrated industries, mobility is lower and leadership stability is more, and these industries enjoyed higher profit margins.

Pushpangadan and Shanta (2006), considers competition as a process and focuses on its dynamic aspects. They deviced an improved turnover index and apply it to examine the mobility of finns across the scale in the post-reform period. In other words, the study focuses on the changes, if any, in size distribution of industries and their inter- and intra-class mobility, tests the relationship between the dynamic
index of competition and the direction of mobility of firms among manufacturing industries. The study covers the time period from 1988-89 to 2000-01 and uses CMIE Prowess data. About 43 percent of the industries studied are characterised by low mobility and barriers to mobility in varying degrees. Ijiri and Simon index – measure based on the relative ranks of firms at two different points, used to approximate the change in competition in the study, indicate mixed results. The rank correlation of change in competition or average shifting among industries over the period does not show any shift in their relative positions implying that some rigidity exist in the expansion of competitive forces in the manufacturing sector.

3.1.2c. Capacity Addition and Aggressive Marketing

Piplai (2001) studies the policy environment and its impact on the Indian automobile industry. While Piplai appears to be justified in saying that there has been excess capacity in the auto industry and the auto majors are facing difficulties in aggressively marketing their products, it is probably not correct to conclude, as he has done, that the current levels of competition resulting from liberalisation are unsustainable. As noted in the introduction, car penetration levels are very low in India and hence the future potential for demand is very high. This would ensure that competition is quite sustainable as there will be enough consumers, given the rapid economic growth that is taking place.

3.1.2d. Mergers and Acquisitions – Growth Strategies

Shiva Ramu (1998) explores various issues involved in merger and acquisition activities, motivation for mergers, relative size of the companies involved and their ownership such as multinational or family business and process of integration. Roy (1999) studies the rising mergers and takeovers since 1989-90, their motivation and characteristics.

Pushpangadan and Shanta et. al. (2006) focus on the dynamic aspects of competition namely, changing scales of operation, ownership patterns and forms of business organisations, mergers and acquisitions, and changing market structure.
3.2 Marketing Dimensions of Indian Car Industry

3.2.1 Marketing Mix Variables

Kalyanaram and Urban (1992) used time-series analysis to examine the effect of key marketing mix variables, like price position, advertising expenditure and product quality perception on market shares, trial and repeat purchase behavior on 18 successful late entrants across eight fast moving consumer packaged products. The findings illustrated that late entrants suffer long-term market share disadvantage compared to early entrants. Late entrants have lower market share compared to early entrants, unless they spend considerably on marketing activities like price, advertising and distribution. Bowman and Gatignon (1996) examined the effectiveness of marketing mix variables on market share in five product markets (two-durable, three non-durables) and 55 brands. The findings that the responsiveness of marketing mix variables like price and promotions on market share reduced with order of entry. The main effects of order of entry on market share were insignificant.

However, some scholars highlighted the disadvantages of being an early entrant and argued that being an early entrant would not guarantee long lasting competitive advantage, but provide an opportunity for the same (Srinivasan, 1988; and Rahman and Bhattacharyya, 2003).

Carper and Snizek, (1980) stated their conceptual typology is based on price, distribution, and promotion, as well as product attributes towards attempting to study on marketing strategy classification.

Hambrick, (1984) used different typologies and taxonomies help bring order to the complex set of interrelated phenomena by identifying recurring patterns of decisions which then provide a comprehensive, yet parsimonious, orientation to the study of strategy.

Ginsberg, (1984) identified classification as a fundamental precept in marketing practice (e.g., definition of market segments) and theory development using taxonomies which have been developed to understand marketing planning styles.
Ketchen and Shook, (1996) attempting at understand the performance implications of the relationship between marketing strategy and business strategy by employing a deductive approach to identify the number and suitability of the clustering variables.

Brownlie, D & Saren, M., (1992) stated that the performance of the marketing mix is possible to be measured by market share and profitability. However, this requires the implementation of a prepared marketing mix. In the planning process, the numerical evaluation of marketing mix alternatives will help the company to choose the best marketing mix through the alternatives. Although, there have been some attempts to compute the optimum marketing mix, there is not an integrated model covering all the components and subcomponent. Optimization of marketing mix, is still a non solved considerable marketing problem.

Constantinides, E. (2002) observed that even though the traditional marketing science, approves the four components of the marketing mix as distinct concepts from each other, the four components and their subcomponents are highly interrelated.

Peter & Donnell, (2007) studied that marketing mix such as product, price, promotion and place influences on consumer purchase decision.

3.2.1a. Product Strategies

Murphy and Enis (1986) proposed a unified product classification scheme that covered services, ideas, and tangible goods.

Mukherjee and Sastry (1996 ) Compared to three major models available in the Indian market until recently, customers can now choose from a wide variety of products. Mukherjee and Sastry (1996) provide an analysis of the entry strategies of new entrants. The automobile market is growing at about 25% for the last three years. The number of persons per car is 200, which is very large compared to other emerging markets like Korea and Brazil which have about 12 persons per car. There is therefore a very huge untapped market. Uncertainty exists about the extent of growth, but a minimum growth rate of 20% is expected until the year 2000. Sales are expected to rise to anywhere between 850,000 to 1.5 million
vehicles by the year 2000. Markets are highly price sensitive since a car is about
18 to 24 months salary for the average middle class buyer. However, incomes are
rising and the economy has been growing steadily at nearly 6%.

Alreck & Robert (1999) have identified in their research that a product or brand
preference might be built through one or more of the theories behind the
promotion strategies which motivate and stimulate consumer brand preference
through the ideas of Maslow’s hierarchy of needs. Simple brand preference
building is an effective mechanism to present the product or brand name and a
particular need through constant and simultaneous repetition. Hence, through
exposure to such conditioning, consumers will eventually learn to associate the
brand with the need and motive.

Corey, (1991); Kotler, (1994) addressed the most important product decisions is
that regarding the breadth of the product line towards it being narrowly focused or
be sufficiently broad to cover a set of complementary products, different
performance specifications.

Zeithaml, Berry, and Parasuraman, (1996) identified the role played by service is
being considered to be an element in the "expanded product" concept.

3.2.1b. Price Strategies

Jacobson and Aaker, (1987) identified the fundamental issue in pricing justifying
Premium prices may be justified based on innovativeness \ superior product or
service quality), or brand equity while justifying lower prices when market share
or sales growth is the objective or when the firm’s product is some-how
disadvantaged.

Grunert (2006), observed that in his empirical study to have found that price
information is important for the consumer decision making process, and that
consumers are very price conscious.
3.2.1c. Promotion Strategies

Hakansson (2005) stated that promotion appears as an issue of how to create an optimal mix of marketing communication tools in order to get a product's message and brand from the producer to the consumer.

Simonian (1996) found towards aligning the sales promotion for effecting sales, the analysis of historical data provides precise evaluations of previous promotions. On the other hand, there is access to rich source of information, but is often disjointed and disorganized. Without further effort, neither historical data analysis nor managerial insight is immediately useful for planning sales promotions.

Bolen (1978) found that first, a retailer planning a sales promotion faces not one, but several decisions: the degree and scope of markdown, expenditures on advertising, timing of the promotion, and sales force commissions.

Jackson (1985) stated that a sales promotion not only effects immediate sales of the product being promoted, but also has a cascading effect on other aspects of the business, such as service and repeat sales.

(McDougall 1992; Finkelmann and Goland 1991; Reichheld and Sasser 1990; Raphael 1990) studies have found that possibility of producing communications appropriate to the target group and maintaining contact with loyal customers has resulted in additional potential for boosting profits derives from the lower cost of marketing activities. The analysis shows that customer satisfaction can be considered the central determinant in all phases of the contact chain. Multidimensional recording of customer loyalty reveals clear differences in the interactions, first, with brand loyalty and, second, with dealer loyalty. In contrast to the opinion widely held in practice, customers in the automotive sector definitely do not perceive the brand and the dealer as one unit. Since similar studies in different countries come to almost the same conclusions, it can be argued that the results are valid in several cultural settings. The results obtained are so fundamental that they can be translated into implications even by internationally operating companies. Though ideally sales promotions should be planned with some care, this is often quite difficult.
3.2.1d. Place Strategies

Oliver (1997) finds that the Automobile manufacturers' success largely depends on the dealers, because they are the ones who have the most direct influence on the customers. Estimating customers' judgment about their 'buying experience' and evaluating the aspects that influence their perception could help in making the product a success. The central determining factor of customer loyalty for dealers and manufacturers is customer satisfaction.

According to Bain (1956), auto firms engage in dealership rivalry partly to maintain the product preferences of buyers, partly to sell a substantial part of their products through retail dealerships, and partly to promote sales, specialized maintenance, repair service, and easy access to replacement parts.

Corey, et al. (1991) identified the most common distribution decision towards use a selective or an intensive distribution system. Products requiring substantial pre- or post-sale service, that have high costs related to stocking and selling, or that are positioned as prestige products will typically require a selective distribution system. Relatively low cost and self-service items are most efficiently handled with intensive distribution.

Walker and Ruekert, (1987) identified the role of Personal selling as particularly appropriate when customers require more in-depth information in real time. For more expensive, complex, or high-risk products, personal selling may be necessary to close the sale. Related to promotion is the support provided through specialist personnel such as order processors and sales engineers.

3.2.1e. Value added Services

Sangameshwaran (2001) reported India’s top car manufacturer, Maruti Udyog Limited (MUL), has reworked its entire corporate strategy and business portfolio and launched initiatives to diversify into support services like vehicle insurance, used car sales, fleet management, accessories and car finance. He cited the result of a joint study by MUL along with AT Kearney in 1998, which stated that the purchase price of the car is only one third of what the consumer spends during the
ownership cycle of the car. A third is accounted for by fuel. The rest goes into support services.

Sanagameshwaran et al. (2001) has highlighted the importance on one-stop support services like insurance and finance, as was practiced by Maruti Udyog Ltd.

3.3 Intending Car Purchase Decision

Duncan, (2005), stated that consumer intending purchase decision is defined as “internal impulses that when simulated initiate some type of response.” Consumers are continuously reacting to their internal impulses as well as the external environment. Since internal impulses and the external environment also interact, resulting in psychological motivations to fulfill needs and wants.

Kalra (1997) found that the Indian consumer rates technology, comfort and convenience as important considerations for car purchase, as the Indian consumer has become highly discerning buyer who wants the most sophisticated and the latest technological innovations in his car.

Preiss and Kleinhans (2001) stated that the Indian passenger car industry has seen the emergence of tremendous choices available to the consumer in almost every segment and identified that towards retain existing relationships as well as to develop new customers, Customer Relationship Management (CRM) has emerged as a key activity.

3.3.1. Cost of car ownership

Vijayraghavan and Philip (2001) have found that many customers include spare parts cost in their consideration for car purchase. Almost all car manufacturers are going in for localization to become more cost effective. MUL has the advantage of having the highest localization content (90 per cent) owing to its lengthy presence in the country. Other automakers like Hyundai, Fiat and General Motors are also able to offer competitive spare parts.
3.4 Customer Satisfaction

3.4.1. Customer Satisfaction and Loyalty

Saxena (2000) investigated the satisfaction level amongst the customers of premium cars. Opel Astra, Ford Escort, Maruti Esteem and Daewoo Cielo- in Indore. For measuring brand satisfaction level amongst the four manufacturers, eight attributes (service, spare parts availability, safety, leg space, boot space, price, style, resale) were listed in the questionnaire. The null hypothesis (there is no significant difference in satisfaction level among different brands of premium cars) was found to be true at 5 per cent significant level. To evaluate satisfaction with dealer service, thirteen attributes were evaluated (location, ease of appointment, facilities, proper diagnosis, labour cost, spare cost, spares availability, promptness in service, correct service, staff behaviour, warranty service, post service follow up, reception handling). The null hypothesis (there is no difference in satisfaction level towards dealer service between different brands of cars) was found to be false at 5 per cent significant level that is, there is significant difference between the dealer services in respect of the 4 cars.

Howard and Sheth (1969) and Engel et al. (1978) point to the relevance of satisfaction with previous services as the determining feedback element in the buyer decision's process.

Johnson (1997) has proposed customer satisfaction as a central determinant of customer loyalty. The literature tends to consider satisfaction as an emotionally orientated construct (Westbrook 1987; Czepiel et al. 1974).

Fornell (1992) has identified that the level of satisfaction determines the depth of customers' commitment towards a brand. Involvement hence embodies as a possible variable to identify loyal customer potential.

(Richins and Bloch 1991) stated in their work, that those who are highly involved personally often act as opinion formers, they are significant multipliers of not only positive but also negative experiences. Involved buyers appear to be more satisfied with what they have experienced as stated by (Puttis and Srinivasan 1994).
Peppers and Rogers (1996) stated that as a result of a higher percentage of loyal customers in the purchaser portfolio, it reduces the threat that customers will buy elsewhere, thus preventing jeopardization of expected sales, and - aggregated this will help safeguard substantial sales over the customer's lifetime. Loyal customers are also likely to bring in higher profit in the later phases because, as they climb up the social ladder, they often buy more luxurious vehicles and which are more profitable for the motor industry. This secure share of sales increases in line with the extent to which new customers can be locked in through loyalty promoting measures during the post purchase phase. Loyal customers also tend to make more additional purchases - an important sales factor in the automotive business, which is heavily dependent on vehicle servicing and accessories. It is also very likely that the price sensitivity of demand falls with increasing loyalty and thus competition on the basis of financial conditions is reduced in the loyal customer segment.

Jose and Lemmink (1992) focus on the positive influence of customer satisfaction on brand and dealer loyalty. The two types of customer satisfaction are the sales service and the after-sales service. That satisfaction with the service (both sales and after-sales service) would be the major determinant of dealer loyalty.

(Stum and Thiry 1991) found that the strength of the relationship between different types of satisfaction and loyalty indicators differs markedly between various market segments.

Roscino (2004) observed that customer loyalty is a very complex issue. There are also limits to the extent to which loyalty can be enhanced in the relationship with the customer. First, not even pronounced satisfaction can always prevent the customer from changing either brand or dealer. The phenomenon and the dynamic nature of competition will probably also ensure that, apart from marketing to safeguard customer loyalty, transactional marketing will always be highly relevant. However, the risk with loyalty-based marketing is that customers will possibly develop a reaction as a result of particularly intensive efforts to safeguard loyalty.
Preiss and Kleinhans (2001); Osegowitsch and Kleinhans (2001) have emphasized CRM as a key goal for success in automobile industry. To retain existing relationships as well as to develop new customers, Customer Relationship Management (CRM) has emerged as a key activity.


Rowland, Cornet and Bouvard (2001) in their study reviewed the scope of automotive telematics for usage in automobiles. In the developed world, technology has always played an important consideration for vehicle manufacturers as customers have always embraced state-of-the-art cars.

Ealey and Mercer (1999) in a study stated that different countries accept technology at different rates. Ealey and Mercer (2000) suggested that auto companies must build on their long term relationships with customers.