CHAPTER 2

REVIEW OF PAST LITERATURE
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2.1. INTRODUCTION

It was important to review certain literature related to the study, in order to know what kind of research have been done before. An effective review creates a firm foundation for advancing knowledge. It facilitates theory development, close areas where a plethora of research exists and uncovers area where research is needed.

It was found that very little research is available on Auto dealership and their functioning. Research has attempted to certain review.

2.2. ROLE OF DEALER IN SALES

(1. SIDBI, Indian Automotive Industry: At the Crossroads, 2008) The automotive industry is increasingly becoming the cynosure of the manufacturing sector across the globe. The attention and importance to the automotive industry in the economic development and planning policies of Government and its agencies has also witnessed significant up rise. The industry has been evolving over the years, meeting up with challenges as diverse as transitions, consolidations and restructuring, and thereby adapting to the new market conditions. In the last few years, the world automotive industry has changed its locational preferences due to various reasons. Earlier, the automotive industry was largely confined to the triad - North America, Europe and Japan; however, with the emergence of some vibrant developing economies, like Brazil, India and China, the global automotive industry has been considering a different growth perspective, and has been relocating the operations. These growing developing economies has been evolving as the manufacturing hub, as also the newfound markets, for the global majors like Ford, General Motors, Chrysler, Toyota,
Honda, Nissan and BMW, who are competing to enhance their market share in these markets. Increasing growth in Gross Domestic Product (GDP) and the growing disposable income has catapulted these emerging economies as market for automotives, while the low cost of operations and skills in design and R&D made them as destinations for investment and manufacturing operations. The entry of global auto-majors into India has significantly altered the automobile-manufacturing scenario in the country. The changes in design and adaptation of international technologies have enabled the Indian automotive industry to compete globally, and thus are also exposed to global challenges. Alongside the challenges, the trend also presents a plethora of opportunities to Indian automotive industry, which needs to be capitalized, so as to emerge as a successful global player. Growing Competition in India’s automobile and auto-parts industry has been growing in the recent years. Earlier, the regulatory framework and market conditions positioned the Indian original equipment manufacturers (OEMs) in monopolistic or oligopolistic market structure.

(2. Biswajit Nag, Saikat Banerjee Rittwik Chatterjee, 2007) As the automotive market in India is evolving through the dynamics of open market and deregulation, many new players have entered the market. Since liberalization, over 20 new players entered the market in the passenger car segment alone. Though, there has been depletion of market share for Maruti Suzuki, it still dominates the passenger car segment. In the two-wheelers segment too, foreign players have their presence through joint ventures as also through their wholly owned subsidiaries. Hero Honda is the largest player in the two-wheeler segment, followed by Bajaj Auto and TVS Motors. In the commercial vehicle segment, though the market is dominated by home-grown companies such as Ashok Leyland and Tata Motors, competition is augmented through the entry of foreign players such as Nissan and Volvo. Indian players are entering into joint ventures with these companies to gain access to the
technological advancement and design engineering. In the auto-parts segment, though there are vibrant units producing high-quality products and supplying to global original equipment manufacturers (OEMs), the market is attracting global players such as Delphi Systems, Visteon, Denso and Bosch, to mention a few. These global majors have been expanding their product portfolio and enhancing their production capacities, thereby increasing the competition among domestic players.

2.3. CURRENT SCENARIO

(3. Dharmaraj C., Sivasubramanian M. and Clement Sudhahar J)

1. India is 11th largest passenger car market in the world.

2. India is the second-biggest market for small cars after Japan. It accounts for 60 percent of the domestic market.

3. India is the fastest growing car market in the world, growth rate of 20 percent.

4. 2/3rd of auto component production is consumed directly by original equipment manufacturers (OEMs).

5. Growth of domestic production, sales and exports of automobiles during 2001-02 to 2005-06 are shown below.

The car market is expected to see the remarkable growth in car production, car sales and car export by the forthcoming years and the passenger car industry now has a new character. However, if we compare India’s per capita car ownership with some of the developed countries we are behind the advanced countries.
Graph No. 2.01
Graph Showing Car Usage in India and Leading World Cars Market for Thousand People

Source: SIAM

Table No. 2.01
Table Showing Automobile Production Trends

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<tbody>
<tr>
<td>Passenger Vehicles</td>
<td>1,209,876</td>
<td>1,309,300</td>
<td>1,545,223</td>
<td>1,777,583</td>
<td>1,838,593</td>
<td>2,357,411</td>
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<td>Commercial Vehicles</td>
<td>353,703</td>
<td>391,083</td>
<td>519,982</td>
<td>549,006</td>
<td>416,870</td>
<td>567,556</td>
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<tr>
<td>Three Wheelers</td>
<td>374,445</td>
<td>434,423</td>
<td>556,126</td>
<td>500,660</td>
<td>497,020</td>
<td>619,194</td>
<td>799,553</td>
</tr>
<tr>
<td>Two Wheelers</td>
<td>6,529,829</td>
<td>7,608,697</td>
<td>8,466,666</td>
<td>8,026,681</td>
<td>8,419,792</td>
<td>10,512,903</td>
<td>13,376,451</td>
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<tr>
<td>Grand Total</td>
<td>8,467,853</td>
<td>9,743,503</td>
<td>11,087,997</td>
<td>10,853,930</td>
<td>11,172,275</td>
<td>14,057,064</td>
<td>17,916,035</td>
</tr>
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Source: SIAM
2.4. CHANGING CONSUMER PREFERENCES

(KPMG’s Global Automotive Executive Survey 2012)

There has been continuous change in consumer demand in the motor vehicle industry, making the companies to focus on innovation continuously. With growing purchasing power among Indian consumers, the demand for better and comfort vehicles with greater efficiency is growing. Intense industry competition has led to design of hybrid vehicles and development of new vehicle concepts. Apart from customers, new technology also allows the designers to change every aspect of car design. According to a study by KPMG, product quality, cost reduction, new technologies and environmental issues, influences the consumer demand for vehicles and thereby innovation in the automotive industry.

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<th>2Ws</th>
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<td>51%</td>
<td>66%</td>
<td>49%</td>
<td>44%</td>
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Sources: Automotive Component Manufacturers Association of India

The dealer plays an important role not only in the distribution of Cars but as an important source of information about the products and their uses. Dealers, in performing their distribution functions, may influence the types of cars that customers would like to buy.
CONSUMERS purchase passenger cars in the country through more than 5301 car dealers in India spread across 677 cities. Domestic and foreign franchised dealers. Each individual dealer must decide how many car lines to distribute to maximize profit potential. Some carry a single car line, while others decide to distribute two or more lines. This study examines the economic factors behind these strategic decisions. First, however, it is helpful to summarize briefly the basic characteristics of the franchise relationship. The agreement between the auto manufacturer and the retail dealer is a voluntary contract covering the purchase of motor vehicles and parts from the manufacturer, and the provision of retail sales and services by the dealer. Dealers must maintain adequate sales and service facilities and stocks of replacement parts. They also submit standardized sales and operating reports to the manufacturers, who assist in all phases of business, including financing, sales and service training, advertising, and business management. Study will examine the economic rationale the point of view of dealer. Every Dealer wish to minimize the distribution cost for any given level of sales there by maximizing the profit. Minimizing the necessary capital investment in sales and service facilities, inventories of cars and parts, special tools and equipment, accounting and reporting requirements, and sales and service staff training for a given level of sales. To achieve maximum economies of scale through standardization, while satisfying individual consumer demands for personalized transportation. Dealers maximize profits by obtaining the optimal (profit-maximizing) sales level with the minimum number of car lines, including a single car line when sales potential is adequate. When such potential is not present, dealers carry multiple lines. Because of an automobile's cost; technical complexity; trade-in considerations; and warranty, recall, and service requirements, an effective point of- sale marketing effort is essential to the manufacturer's success. Manufacturers of motor vehicles and many other consumer durables have long
believed that this critical marketing function is most effective when a dealership has sufficient volume to accommodate distribution of a single product line.

Car dealers play an important intermediary role in the promotion of brand equity and sale of a particular brand of cars. In the process, they build up the reputation and contribute towards the growth of the company's market share. In India, the role of car dealers was limited to a mere selling of cars that has undergone a substantial change in the recent times with dealers emerging as an important point of connect between the company and the customers for the cars. Car dealers of today’s are expected to act as a catalyst to promote the sales of a car. At the first instance, car dealers are to have a good collection of cars. Car dealership depends on availability of the brand new cars and the location of the showroom.

Depending upon the brand and type of cars, dealer location ensures that the potential customers get the best of strategic advantages. The ambiance and the customer service are equally important. The customer should feel welcome at the car dealers place and the more a car dealer is able to generate that sort of feelings among his potential customers, the likelihood of car sales is to increase.

Sales associate at the new car dealer's place should be able to understand the exact requirements of the customer and accordingly explain the traits of the car that matches his needs. In addition, they should understand the customer preferences and likings and the auto dealer should ensure that all such feedback is reported back to the concerned company that will help them to make the changes in the car, if and where necessary.

Among the Indian car dealers, Maruti continues to lead the market with number one position. With a large dealer network spanning all parts of the country, including some of the remotest and high terrain areas, Maruti has maintained a clear lead with its car dealer network. Tata Motors too has bridged the gap considerably in recent months with greater aggression being shown in setting up dealer networks, especially in the towns and cities.
Hyundai and Ford however, continue to maintain a car dealer network that remains limited broadly to the major towns and cities in the country. Chevy car dealers also have a good network.

Various car dealer websites that give ample information, preferably with illustrations, on each model of cars they intend to sell. This is good development considering the technological advancements.

The profitability of auto dealerships has always been an issue. The issue was obfuscated by the premia earlier and the eagerness of getting into auto dealerships. Now, however, given the harsh realities, one can witness a churn first amongst weaker company's dealerships. Number of 2 Wheeler and Commercial Vehicles companies are unable to attract or retain good dealerships. There is a throughput required in each dealership. The no. also ties up with the volumes required to generate profits to develop new products in pace with the market. There will be a similar calculus in the car sector.

2.5. CORPORATE IDENTITY AND BRAND MANAGEMENT ON THE CAR MARKET THROUGH DEALERSHIP

(7. Connelly, 2006) & (8. Migliore, 2006) Brands are communicated through a number of channels. In the automobile industry, advertising on television and in periodicals have been the most significant general communication media, but the primary area of customer contact has been the dealer. However, over the last few years, car buyers have begun to use the Internet as an information medium during the buying process.

(9. Migliore, 2006) For the dealer, this means that customers are better informed. From a channel perspective, the hub of brand communication, primarily at an early stage in the buying process, moves from the dealer to the manufacturer and its website
Brand theory suggests that customers as well as other stakeholders unconsciously integrate brand messages, which gives reason for manufacturers to take control of the brand communication process, in order to control the brand and reach conceptual homogeneity. Accordingly, there is a need for all actions performed by channel members to be coordinated.

(12. Kapferer (1997) & (13. Achterholt (1988) emphasize the communicative role of all the activities in the organization. Achterholt argues that it is impossible to avoid communicating, thus, an organization is always communicating whether it wants to or not. Kapferer views brand identity on the sender’s side, and brand image on the receiver’s side in a communication model. In this way, identity precedes image. (12. Kapferer, 1997, p. 25) A brand provides the customer representation of advantages that the company provides: “The brand is a focal point for all the positive and negative impressions created by the buyer over time as he comes into contact with the brand’s products, distribution channel, personnel and communications”. 12. Kapferer (1997) views corporate identity as the underlying meaning of the organization: “Corporate identity is what helps an organisation, or a part of it, feel that it truly exists and that it is a coherent and unique being, with a history and a place of its own, different from others”. More or less explicitly, literature on brand management and corporate identity discuss consistency a great deal, thus emphasizing the need to communicate a consistent message across stakeholder groups (cf. 10. Birkigt et al., 1992; 12. Kapferer, 1997; 14. Keller et al., 2002; 15. Maier, 1992).

10. Birkigt et al. (1992) introduce a number of in-depth studies on corporate identity including brands which are commonly agreed to be strong (e.g. BMW, IKEA). Birkigt et al. refer to a car manufacturer and its franchised repair shops and emphasize the importance of communicating similar values. If the image of the car manufacturer and its franchised repair
shops differ, that would result in dissonance and an inconsistent corporate identity. Birkigt et al. views the development of a brand image that goes further than physical artefacts as a means of behaving consistently throughout the entire distribution system.

2.6. COMPETITION IN INDIA

As a result, competition in India’s automobile had been heating up in the recent years. Many global players in the automobile have already set up presence in India. Most of them are through tie-ups with dominant local players, while some are done entirely on their own.

In the absence of strong competition in the past, the local car manufacturer Maruti Udyog Ltd (MUL) has virtually dominated the Indian automotive market in the passenger segments since the 1980s. As the automotive manufacturing sector rapidly evolved through the dynamics of open market and deregulation, many new joint ventures (both technical and financial) were formed between local players with leading global manufacturers. In 1982, MUL, then a wholly government-owned company, signed up a collaboration agreement with Suzuki of Japan to establish the volume production of contemporary models. Subsequently, the licensing regime was scrapped in 1993 paving way for 17 new ventures, of which 16 are now manufacturing cars since then; there has also been an emergence of new competition for higher value segments of the passenger car market. Hence, local players like MUL also began to face competition from new foreign car makers. Ford entered the mid-range market with the Ikon model in April 1998, a move which was followed by Honda, Mitsubishi, Hyundai, and Daewoo. Other players, Hyundai and Daewoo, have since improved their share of the passenger car market with new models for the 4-wheelers segment, MUL/Suzuki dominates the automotive landscape holding a 33% share of the passenger car market in 2004-05. In the second place is Tata Motors, a local
company, commanding 26% share, while Hyundai Motor ranked third with 15% share and the rest split amongst close to 2 dozen other manufacturers.

(17. A.Veena) & (H.R.Venkatesha, 2008) Dealers are important link in automobile marketing. They play crucial role in growth of the industry. The dealers have to take managerial decisions. 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. (18.Oliver 1997) The central determining factor of customer loyalty for dealers and manufacturers is customer satisfaction. (19. Howard and Sheth, 1969) & (20. Engel et al. 1978) If one attempts to answer the question of what induces customers to exhibit loyal behavior in respect of a product or a dealer, researchers point to the relevance of satisfaction with previous services as the determining feedback element in the buyer decision's process. (21. Johnson 1997; Johnson et al. 1997) It therefore appears sensible to make a detailed analysis of customer satisfaction as a central determinant of customer loyalty.

(22. Westbrook 198) & (23. Czepiel et al. 1974) The literatures tend to consider satisfaction as an emotionally orientated construct. (24. Fornell 1992) The level of satisfaction determines the depth of customers' commitment towards a brand. Involvement thus embodies a possible variable to identify loyal customer potential. Since 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.

(25. Peppers and Rogers 1993) A result of a higher percentage of loyal customers in the purchaser portfolio is that 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. Additional potential for boosting profits derives from the lower cost of marketing activities, which essentially results from the possibility of producing communications appropriate to the target group and maintaining contact with loyal customers. 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. 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. 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. 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. Dealers must 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. Furthermore, it was found that the strength of the relationship between different types of satisfaction and loyalty indicators differs markedly between various market segments. The 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. This 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 action as a result of particularly intensive efforts to safeguard loyalty.
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5. Automotive Component Manufacturers Association of India
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