

Strategizing Indian Automobile Industry for Gaining a Sustainable Competitive Advantage for Firms Operating In Global Marketplace

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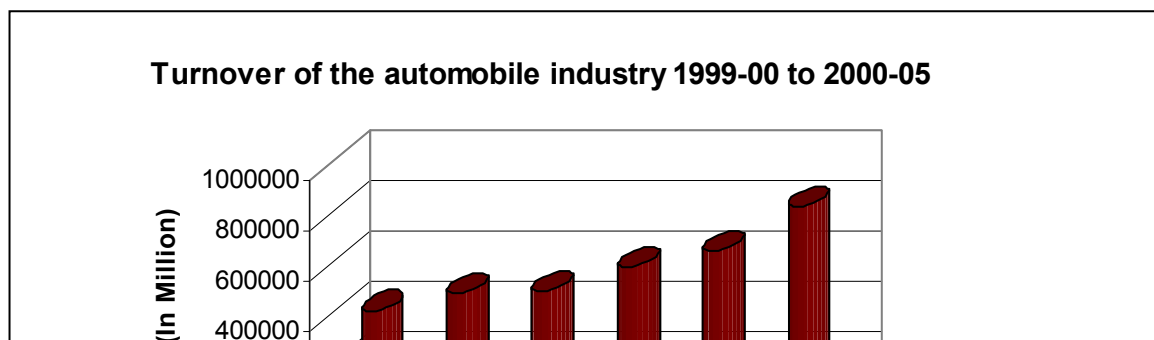
Abstract: *Automotive industry is one of the core industries of Indian economy, whose prospect is reflective of the economic resilience of the country. With 4 percent contribution to the GDP and nearly 5 percent of the total industrial output in 2005-06, the automotive industry has become a significant contributor to the exchequer. Continuous economic liberalization over the years by government of India has resulted in making India as one of the prime business destinations for many global automotive players. In this paper an attempt has been made to identify the strategies for foreign as well as domestic companies for sustained competitive advantage in the global market place including an in depth analysis of current state of Indian Automotive industry.*

Introduction:

India holds huge potential in the automobile industry including the automobile component industry owing to its technological, cost and man power advantage. Further India has well developed globally competitive auto ancillary industry and established automobile testing and R&D centers. The country enjoys natural advantage and is among the lowest cost producers of steel in the world. The Indian automobile industry today is world's second largest manufacturer of two wheelers, India has the world's largest motor cycle manufacturer, second largest manufacturer of tractor, fifth largest manufacturer of commercial vehicle and the fourth largest car market in Asia. This industry possess a lot of investment opportunities particularly in the areas of research and development center, engineering center, passenger car segment, two wheeler segment and heavy truck segment.

Industry Analysis

Automotive industry has been witnessing impressive growth during the last two decades. The abolition of licensing in 1991, permitting automatic approval and successive liberalization of the sector over the years have led to overall development of the automobile industry. The freeing of the industry from the restrictive environment on the one hand helped it to restructure, absorb new technologies, alien itself to global developments and realize its potential and on the other hand, this has significantly increased industry's contribution to overall industrial growth in the country.



Source: Society for India Automobile Manufacturers (SIAM) Report- 2006

<u>Installed Capacity (in millions)</u> 2004-05		<u>Installed Capacity (in millions)</u> 2005-06	
Four wheelers	1.51	Four wheelers	1.72
Two & three wheelers	7.83	Two & Three Wheelers	9.13
Engines	0.18	Engines	0.18

Domestic Sales: Passenger car sales rose by 22.94 percent during April-August 2006 compared with same months last year. Utility vehicles (UVS) sales grew at 11.95 percent during the same period. The cumulative growth of overall passenger vehicles during April-August 2006 was 20.58 per cent. Overall the two wheeler market grew by 14.66 percent during April-August 2006. Motor cycles grew by 16.96 percent; scooters grew by 4.24 percent and mopeds by 4.55 percent. Three wheeler sales grew at 20.64 percent. Goods carriers grew by 24.23 percent and passenger carrier grew at 18.26 percent during the April-August 2006, over the same period last year. Overall the commercial vehicles segment grew at 37.9 percent. The growth of medium and heavy commercial vehicles was 41.49 percent, while light commercial vehicles also performed well with a growth of 32.95 percent.

Automobile Domestic Sales Trend (in no.s)

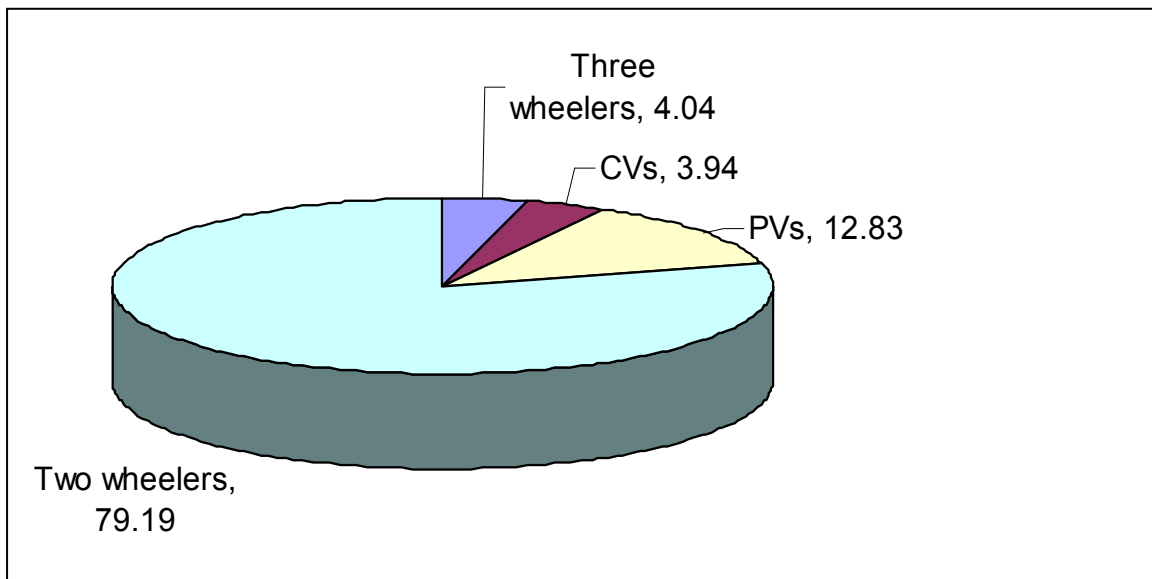
Category	2004-05	2005-06
M& HCVs	198506	207446
LCVs	119924	143237
Total CVs	318430	350683
Passenger Cars	820179	882094
Utility vehicles	176360	194577
MPVs	65033	66366
Total passenger vehicles	1061572	1143037
Scooters	922428	908159
Motorcycles	4964753	5815417

Mopeds	322584	332741
Total two wheelers	6209765	7056317
Three wheelers	307862	360187
Grand Total	7897629	8910224

Source: Society for India Automobile Manufacturers (SIAM) Report- 2006

Exports: Overall automobile exports registered 28.13 percent growth rate in April-August 2006 over the same period last year. Passenger vehicle exports grew at 14 percent and two wheeler vehicles by 28.39 percent.

Market Share for 2005-06 (in %)



Automobile Export Trends (in no.s)

Category	2004-05	2005-06
M& HCVs	13474	14096
LCVs	16466	26485
Total CVs	29940	40581
Passenger Cars	160670	170193
Utility Vehicles	4505	4486
MPVs	1227	1093
Total (Cars + UVs+ MPVs)	166402	175772
Scooters	60669	83873
Motor Cycles	277123	386202
Mopeds	28585	43181
Total two wheelers	366407	513256

Three wheelers	66795	76885
Grand Total	629544	806494

Source: Overdrive, July 2006

While growth in the automotive industry in Western Europe was pedestrian at 1.1 percent in 2006, the Indian automotive industry experienced explosive growth of 22 percent. An average double figure growth rate is forecasted for the next 10 to 15 years.

The Indian component supplier industry anticipates an almost five fold increase in sales in the ten years to 2016. Although the car market in India is still relatively small, it must be emphasized that India already has the largest market for three wheeler transport vehicles and the world's second largest market for motor cycles and motor scooters.

Auto Components Industry:

India's automotive component industry, manufacture almost the entire range of parts required by the domestic industry for various types of vehicles. The total domestic production of automotive components in FY 2005 was \$7 billion. Of this, the organized sector accounted for 77 percent of the total value of production with the rest coming from the unorganized sector. There is huge unorganized sector that typically caters to the demands from the replacement market. The unorganized sector, in turn is a low cost sector with fiscal liabilities (in terms of excise duties) not being accounted for. As a result the unorganized sector is able to supply the replacement market with significantly lower priced parts. The after sales market is highly competitive for components due to price sensitivity and tolerance for lower quality products. A major channel of marketing and distribution for this sector is the typical roadside mechanic.

Market Overview:

Over the next five years from 2006, the auto component industry is likely to witness a compound annual growth rate (CAGR) of around 13-14 percent on the back of strong growth in the automotive industry and steady increase in replacement demand.

Even though the Indian automotive components industry is relatively small, there are close to 450 players in the organized sector and over 5000 in the unorganized sector competing against each other for the market share. The organized sector's market share has increased over time. Players in the organized sector supply the vehicle manufacturers directly. The organized sector accounts for around 23 percent of the total components in India.

The automotive components industry is a combination of different product segments with each segment having a different market structure. However the number of companies present in each segment differs because of different level of technology requirement.

Factors effecting demand for replacement parts:

A Size of the national vehicle population: Clearly the more number of vehicles, the higher the aggregate demand for replacement parts. With new vehicle registration currently increasing at a CAGR of more than 10 percent, the prospects of replacement demand for automotive components in India appear' bright.

B Age of national vehicle population: It is evident that higher the average age of national vehicle population, the greater the expenditure on replacements parts. This is particularly true for India, where scrap rate are relatively low. So, a longer use of the vehicles would ensure higher replacement demand and a lower OEM demand. Vehicle scrap norms are not yet widely prevalent in India. Thus the life of vehicles in the country is high by international standards. The rapid growth in vehicles in the recent past has ensured a fast increase in the number of vehicles on road. If this trend continues, it is likely to push up the replacement demand for automotive components.

C Number of kilometers driven per vehicle: In terms of passenger travel, the trends indicate that people are driving their vehicles for longer distances every year. The demand for replacement parts would increase as the wear associated with higher mileage of vehicles per year increases.

D Road Infrastructure: In 1951 railways used to carry about 85 percent of total freight in India. In 2005, railways account for about 30 percent of total freight movement. This change has meant that the number of vehicles on the roads has increased, leading to road congestion. It has been estimated in a survey conducted by Ministry of Surface Transports in 2006 that about 2 percent of the road length in India carries about 40 percent road traffic.

E Driving Conditions: Besides congestion, the poor quality of Indian roads is a significant factor when added to wear and tear of vehicle parts. In India the poor condition of the roads have significantly affected demand for different parts. For instance, internationally, axles are not high replacement demand products. But in India, because of the poor quality of roads, axles have a high replacement demand.

With the vehicle population and usage in India increasing and given lower scrap rates, the replacement demand for automotive components is likely to emerge as an important source of demand for automotive components.

The vital statistics pertaining to the auto components sector during 2004-05 and 2005-06 are outlined below:

<u>Indicators</u>	<u>2004-05</u>	<u>2005-06</u>
<u>Output</u>	<u>Rs.24,500 crore</u>	<u>Rs. 30,640 crore</u>
<u>Exports</u>	<u>Rs. 4,620 crore</u>	<u>Rs. 6,237 crore</u>
<u>Employment</u>	<u>5, 00,000 persons</u>	<u>5, 00,000persons</u>

Exports: Auto component exports shot up phenomenally by 40 percent in 2005-06 in comparison to the previous year, to a level of US \$ 1.4 billion. A high growth of 30 percent is expected to continue in 2006-07 also. Indian auto components are being exported through out the world. During the year 2005-06 total export was of the order of Rs. 6,237 crore.

Emerging trends in Indian Automobile industry:

- Globalization is pushing auto majors to consolidate, to upgrade technology, enlarge product range, access new markets and cut costs.

- Environmental safety concerns are leading to higher safety and emission norms in the country. India has already implemented Euro II norms across the country in 2005. Seven Metropolitan Cities of India have moved to Euro III norms in 2005.
- Foreign direct investment norms have already been considerably relaxed. Unhindered import of automobiles, including new and second hand vehicles, has also been permitted.
- Most non tariff barriers have also been relaxed or removed. The government has moderated and lowered taxes and duties on automobiles, including customs duty. Value added tax (VAT) has also been introduced across the country.
- As an ambitious programme to upgrade the quadrilateral of high ways in the country, the government is laying an eight lane expressway linking all metropolitan and several important capital towns across the country, paving the way for movement of heavier haulage vehicles.

Suggested measures for growth of automobile industry:

The automobile industry across the world has great potential to trigger sustained employment, mobility, inter sectoral industrial growth and thus can create conducive conditions for general economic and social well being. However there is need to promote and sustain international cooperation between governments and industry. There is need for coordinated research and development, standardization of designs and broader technologies, effective cost cutting to enhance affordability and loosening of trade barriers across the globe. There are several measures, which require addressing at the national and international levels. Some suggested steps at both levels are listed below:

Suggestions at the national level

- Reducing the incidence of taxes and loosening of non tariff barriers has to be attempted with a faster pace. A regime of single tax across the country is an ideal situation and possibilities of this should be explored.
- A vehicle retirement programme will assist not only in fleet modernization and reduction of emission but will also provide quantum fillip to the demand, should be put in place.
- There is need to brief the international community on technological and quality related capabilities of Indian automobile industry. Substantive efforts are required for educating opinions leaders and build a strong '*Made in India*' brand in overseas markets.
- An institutional mechanism such as the automobile export promotion council, which can address industry specific issues and facilitate exports, is urgently required.
- Labor law reforms to facilitate better productivity and reduction in manpower costs has already been committed by the government should be expedited.
- Easier availability of Market credit for funding automobile acquisition is required. Despite lower interest rates, availability of easy credit in rural and semi urban areas require more focused attention. This can substantially spur demand.

Suggestions at the international level

- Series and sustained dialogue on regional cooperation in automobile sector should begin at the earliest.
- The problem of high tariffs is still prevalent in certain sectors. These high tariffs are generally noticed in developed countries. Reduction of peak tariffs is necessary to facilitate free flow of automobiles.
- Non tariff barriers should be phased out with mutual dialogue and consensus.
- Mutual recognition should be accorded to the testing and certification agencies in various countries.
- Countries should join hands in developing alternative fuels to replace the existing fossil fuels.

Fragmented and limited research in each country may lead to delay and more expensive result. Affordability of quality automobiles should be the focus of industry across the world to facilitate volumes and widespread ownership.

Conclusion

- Easier and faster mobility of people and goods across the regions, countries and continents is a cherished yearning of mankind. The automobile industry's potential for facilitating this mobility is enormous. Wheels of developments across the globe would have to be powered by this industry. However, a seamless development of this industry across countries and contents alone will help in realization of this objective.
- Automobile industry across countries will have to meet challenges of newer technologies, alternative fuels and affordability by people at large, through constructive cooperation. The earlier we are able to achieve this the better it would be for the world development.

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