

Rising Indian Automobile Industry : Looks do Matter!

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Abstract:

This paper reports a part of an ongoing investigation in Indian Automobile Industry. Indian Automobile Industry is under continuous reforms so, an attempt has been made to examine the 5 features of a car namely uniqueness, luxury, looks, technical superiority and car accessories which attract customers the most while purchasing a car. A systematic random sampling from five residential areas of urban Jaipur was done to select 50 car consumers. An investigator-constructed questionnaire was used to collect data on these factors. The data analysis using chi-square test was done to describe the nature of the sample and to test the null hypothesis that the choices for purchase of car is equally distributed on five features. Data Analysis has been done by using non parametric chi-square test. It was analyzed that features of car effect car purchasing decision.

Keywords: *Indian Automobile Industry, Car consumers, Features of car*

INTRODUCTION:

India has become a fast-growing auto market over the past two decades. It has witnessed revolutionary changes in the management systems and manufacturing innovations of the world automotive industry. A proprietary study conducted by McKinsey and the Associated Chambers of Commerce and Industry of India (PTI, April 18, 2005; Newsweek International November 28, 2005, the Financial Times, December 1, 2005) indicated that by 2015 global auto production is likely to reach \$1.9 trillion dollars, of which around \$700 billion dollars will be produced in developing countries.

India is fast becoming powerful force in the global automobile industry, and has the strength to sustain leadership and growth in the face of the global trading order. The growth in Indian economy encounters the growth in industrial production. Growth has been driven by rapid economic growth and increasing wealth in double digit over the past decade and more than a three-fold surge in equity markets. The development in automobile sector overhauls the perception of potential car buyers, with their increased disposable income, enormous information search, and availability of lucrative financial options.

People today are more pragmatic before acquiring the automobile. For most people, purchasing a car is one of the most important and expensive investment, next to purchase of a house. For the automotive manufacturers, first-time car buyers give them the opportunity to create positive brand image which definitely could be reflected in coming years because consumers could repeat car purchasing. The small car market has changed rapidly due to the fierce competition and advanced technologies. Therefore, it requires the automotive manufacturers and car dealers to understand the consumers' preference on time and take fast actions to respond to market changes quickly. Now-a-days new cars are launched very frequently with unique and novel features. So, it would be very interesting to know consumers' preference in today's fast-changing car market.

This research paper attempts at studying the recent trends of Indian Automobile Industry with special reference to car manufacturers. While manufacturing a car, several features are incorporated into it. Features like luxury, looks, uniqueness, car accessories, technical superiority, etc. could play an important role in purchasing decision of car. Therefore, the research paper aims at examining the features of car which attract consumers the most.

REVIEW OF INDUSTRY:

On the basis of emergent automobile trends, be the consumers, NMCC (2006) observes that 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. Likewise, 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. According to this study, the major advantage of the Indian economy is educated and skilled workforce with knowledge of English. Our disadvantages include poor infrastructure, complicated tax structure, inflexible labour laws, inter-state policy differences and inconsistencies. In other words, 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. Moreover, 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. Given the policy framework, Pingle (2000) reviews the policy framework of India's automobile industry and its impact on its growth. While the ties between bureaucrats and the managers of state-owned enterprises played a positive role especially since the late 1980s, ties between politicians and industrialists and between politicians and labour leaders have impeded the growth. However, D'Costa (2002) argues that Maruti Udyog Limited's success is not particularly attributable to the support from bureaucrats. Rather, any firm that is as good as MUL in terms of scale economies, first-come advantage, affordability, product novelty, consumer choice, financing schemes and extensive servicing networks would have performed as well, even in the absence of bureaucratic support.

RECENT TRENDS IN INDIAN AUTOMOBILE INDUSTRY:

Today Indian automobile manufacturers are serving a wide variety of transportation solutions across different levels. There is a drastic growth in sales and distribution setup, which enables the automobile company to play a vital role. Moreover the company's proximity to their raw material and component suppliers help them in reducing procurement costs. Automobile manufacturers have clearly committed themselves to supply the market with ever safer and more environment friendly products. Indian automobile manufacturers are continuously investing huge in R&D for further product improvements and in developing new propulsion systems.

Talking about excise duty, excise duty hike could affect demand recovery and profitability of four-wheelers, says Budget review by Emkay Global Financial Services. In passenger cars, the risk arises due to consumer preference for diesel, imminent fuel price hike, subdued freight rates and a modest interest rate cut which may fail to spur demand as per expectations. In the near term, used vehicles will enjoy higher demand (Source: SIAM, Emkay Research, DNA March 23, 2012)

In the same league, Insurance Regulatory and Development Authority has revised the premium rates on third party motor insurance cover which will make it costlier by up to 30%. As per revised rates, the private car owners have to shell out 4% to 6% depending on engine capacity.

Category	Increase
Private cars*	4-6%
Two wheelers#	6-8%
Tractors	8%
Public carriers\$	10-21%
Public carriers-3 wheelers	10-28%
Private carriers-3 wheelers	32%
Agri tractors-up to 6 HP	20%
Taxis@ (up to 6 seats)	10-22%
Buses@ (above 6 seats)	23%
3 wheelers@ (up to 6 seats)	28%
3 wheelers@	6-17%

*Higher the CC, lower the increase

#no increase above 350 CC

\$no uniform pattern

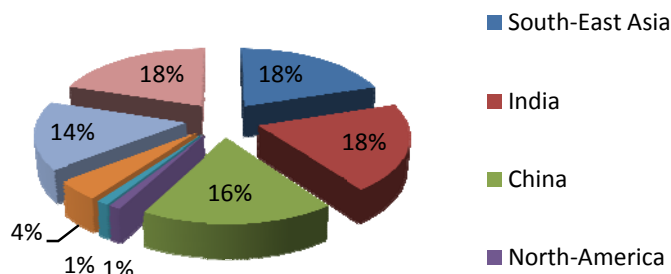
@passenger liability by 5%

(Source: Bharti Axa General Insurance, DNA March 29, 2012)

Two-wheelers: The global two-wheeler market size stands at 55 million units with China and India accounting for around 45% of the market. Given the income level and the warmer climates, two-wheelers are popular

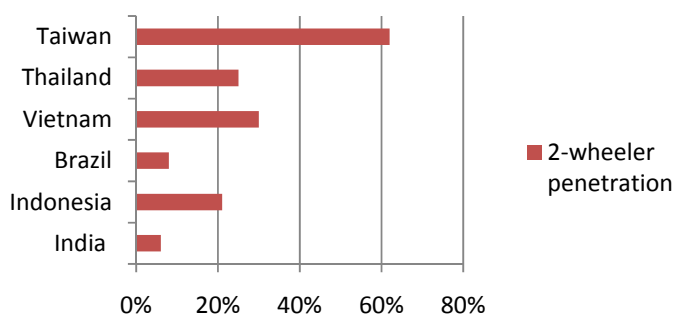
largely in Asia, Latin America and Africa. India is second largest two-wheeler market in the world after China, but the penetration is very low at around 6%. Taiwan, on the other hand has 62% penetration while Vietnam has 30%, Thailand has 25% and Indonesia 21%.

Global bikes demand



(Source: Honda Credit Suisse estimates, DNA August 26, 2011)

2-wheeler penetration



(Source: Honda Credit Suisse estimates, DNA August 26, 2011)

Cars: The passenger vehicle segment grew strongly by 25.7% and 29.2% in FY10 and FY11, respectively. Economic slowdown, rising fuel prices and north-bound interest rates, however have limited growth of automobile industry to 1.45% for the April-January period of FY12. Industry expert say the passenger vehicle segment (which encompasses small cars, sedans, SUVs, MPVs and other varieties) is expected to post only single-digit growth rate for the next financial year too. (Source: SIAM Bloomberg, DNA March 2, 2012)

Car dispatches in country fell 1.8% in September 2011, marking the third consecutive month of decline. Domestic dispatches of car stood lower at 165,925 units as production fell 9.39% to 191,327 units, data released by Society of Indian Automobile Manufacturers (SIAM) showed. The passenger vehicles category remained almost flat at 218,170 units. The 1.43% growth seen in passenger vehicles in September 2011, was the lowest in 11 quarters.

For the July-September quarter, the PV segment reported a 4% decline in dispatches against a growth recorded in the same period last fiscal. But two-wheeler continued to report robust growth at over 24% and commercial vehicle dispatches also held up 18% rise, largely on galloping demand for light commercial vehicles. During September 2011, two-wheelers production rose about 21% while domestic sales were 24.27% at 12,33,283 units (Source: SIAM Bloomberg, DNA October 11, 2011)

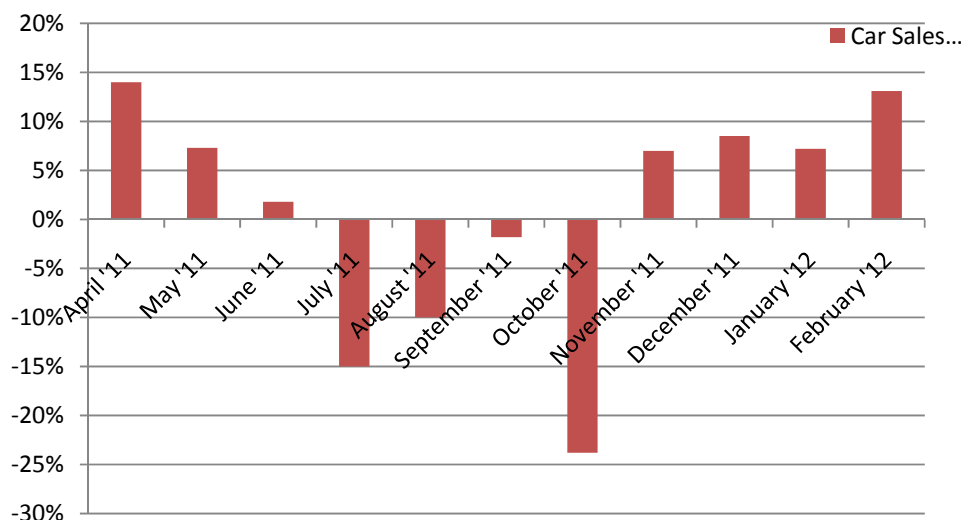
Festivities failed to drive up car sales, at least for the top three car makers in October 2011. Market leader Maruti Suzuki India reported a sharp 52.2% plunge in sales at 51,458 units as against 10,755 units in the same month last year. Hyundai Motor India's sales fell 5% to 33,001 units whereas Tata Motors' passenger vehicle business reported a 3% decline at 25,746 units due to fall in sales of Fiat vehicles. Not just cars, the slowdown in vehicle sales has percolated down to bikes too (Source: DNA November 2, 2011)

With the Domestic car sales growth of 7% in November 2011, 8.5% in December 2011, 7.2% in January 2012, Domestic passenger cars crossed the 2 lakh unit monthly sales mark for the first time in February 2012 as buyers preponed buying to avoid any price hikes in the upcoming Budget. Car makers sold 211,402 units in

February, a growth of 13.12% over the same month in 2011, according to data by SIAM. This is the fourth straight monthly increase and biggest in the last 10 months.

The auto industry which was expecting a drop in car sales for the full fiscal 2011-12 now sees the ending in the positive territory on the back of good numbers in January and February. Diesel cars and utility vehicles continued with their strong show in February. Vans and utility vehicles grew 25.34% and 30.04%, respectively. Commercial vehicle sales grew 18.70% in the last month year on year. Two-wheelers sales grew 11.96% over February last year, while three-wheelers sales dropped 13.58% (Source: DNA March 13, 2012)

Car Sales Growth



(Source: SIAM Bloomberg, DNA March 13, 2012)

Besides the ups and downs faced by the automobile industry, it is progressing on the path of success. It has considered every opportunity coming its way and is potent of surviving in this globally competitive scenario.

METHODOLOGY:

The present research utilizes the survey research methodology to find out the features which affect the car buying behavior of a consumer. The research is of ex-post facto type. The objectives of the study were: (i) To construct and validate a questionnaire covering five features namely uniqueness, luxury, looks, technical superiority and car accessories. (ii) To test the null hypothesis that the choices for purchase of car is equally distributed on five features.

An investigator- constructed questionnaire had two sections. Section A consisted of demographic questions and section B included the question regarding the factors affecting car purchasing behavior of a consumer of urban Jaipur. The sample for the present research consisted of 50 car consumers. A systematic random sampling was done to select 50 car consumers from five residential areas of Jaipur namely Malviya Nagar, Bajaj Nagar, Bapu Nagar, Barkat Nagar and Gandhi Nagar i.e., ten car consumers from each area. The list of car owners living in various apartments in the identified five residential areas wherein the car parking space was available, was collected which turned out to be 150. Then at random every third car owner was selected for data collection.

DATA ANALYSIS AND INTERPRETATION:

The data collected was subjected to data analysis using non parametric chi-square test as the sample is small and it fulfills the requirement of the study. It was hypothesized that the choices for purchase of car is equally distributed on five features namely uniqueness, luxury, looks, technical superiority and car accessories.

So, the probability of obtaining any one factor over five features is $1/5$ and as such the expected frequency of any one feature coming upward is $50/5 = 10$. By using observed frequency along with expected frequencies, the value of chi-square (X^2) was worked out.

TABLE-1 The summary of chi-square test analysis (N=50; df=4)

FACTORS	OBSERVED FREQUENCY(O)	EXPECTED FREQUENCY(E)	X ² VALUE
Uniqueness	2	10	
Luxury	4	10	
Looks	14	10	21.60**
Car-accessories	10	10	
Technical superiority	20	10	

** significant at 0.01 level

The table reveals that that the technical superiority effect significantly the decision making by the car buyers of Jaipur.

FINDINGS:

Based on the analysis, following results emerged:

- The null hypothesis was rejected as there has been significant difference between the obtained and expected X² values at 0.01 level.
- There has been significant difference in two features i.e., technical superiority and uniqueness. Therefore, the car purchasing decision is most affected by technical superiority and least affected by uniqueness.
- There is a significant positive relationship between all the considered features and consumers' car purchasing behaviour

CONCLUSION:

The Indian automobile sector is a key player in the global and Indian economy. The automobile and auto-component industry has emerged as one of the recent success stories. As in all other countries, the Indian automobile industry is one of the key drivers of industrial growth and employment which will further gain in importance in the coming years. In addition, the auto industry is linked with several other sectors in the economy and hence its indirect contribution is much higher than this. All over the world it has been treated as a leading economic sector because of its extensive economic linkages. Moreover, the role of features of car cannot be ignored in the success story of Indian automobile Industry.

IMPLICATIONS AND DISCUSSIONS:

Automobile manufacturers should consider the features as an integral part of manufacturing. It is suggested to incorporate the combination of various features in order to meet the emergent needs of the consumers. Small car market is changing at a very fast pace so it required to develop novel features to sustain global competition.

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