

# [Challenges to india's automobile industry](https://assignbuster.com/challenges-to-indias-automobile-industry/)

### Industry Overview

Since the first car rolled out on the streets of Mumbai (then Bombay) in 1898, the Automobile Industry of India has come a long way. During its early stages the auto industry was overlooked by the then Government and the policies were also not favorable. The liberalization policy and various tax relief’s by the Govt. of India in recent years has made remarkable impacts on Indian Automobile Industry. Indian auto industry, which is currently growing at the pace of around 18 % per annum, has become a hot destination for global auto players like Volvo, Genneral motors.

The automotive industry is facing new and pressing challenges. Globalization, individualizations, digitalization and increasing competition are pressing the face of the industry. In addition, increasing safety requirements and voluntary environmental commitments by the automotive industry have also contributed to the changes ahead. Size is no longer a guarantee of success. Only those companies that find new ways to create value will prosper in the future. The purpose of this paper is to present a short overview of the automotive industry today and highlight challenges facing the industry. Based on this perspective, some strategic methodology which enabling them to transform themselves for the competition.

### Automobile Industry in India

Automobile Industry in India has witnessed a tremendous growth in recent years and is all set to carry on the momentum in the foreseeable future. Indian automobile industry has come a long way since the first car ran on the streets of Bombay in 1898. Today, automobile sector in India is one of the key sectors of the economy in terms of the employment. Directly and indirectly it employs more than 10 million people and if we add the number of people employed in the auto-component and auto ancillary industry then the number goes even higher.

The automobile industry comprises of heavy vehicles (trucks, buses, tempos, tractors); passenger cars; and two-wheelers. Heavy vehicles section is dominated by Tata-Telco, Ashok Leyland, Eicher Motors, Mahindra and Mahindra, and Bajaj. The major car manufacturers in India are Hindustan Motors, Maruti Udyog, Fiat India Private Ltd., Ford India Ltd., General Motors India Pvt. Ltd., Honda Siel Cars India Ltd., Hyundai Motors India Ltd., and Skoda India Private Ltd., Toyota Motors, Tata Motors etc. The dominant players in the two-wheeler sector are Hero Honda, Bajaj, TVS, Honda Motorcycle & Scooter India (Pvt.) Ltd., Yamaha etc.

In the initial years after independence Indian automobile industry was plagued by unfavourable government policies. All it had to offer in the passenger car segment was a 1940s Morris model called the Ambassador and a 1960s Suzuki-derived model called the Maruti 800. The automobile sector in India underwent a metamorphosis as a result of the liberalization policies initiated in the 1991. Measures such as relaxation of the foreign exchange and equity regulations, reduction of tariffs on imports, and refining the banking policies played a vital role in turning around the Indian automobile industry. Until the mid 1990s, the Indian auto sector consisted of just a handful of local companies. However, after the sector opened to foreign direct investment in 1996, global majors moved in. Automobile industry in India also received an unintended boost from stringent government auto emission regulations over the past few years. This ensured that vehicles produced in India conformed to the standards of the developed world.

Indian automobile industry has matured in last few years and offers differentiated products for different segments of the society. It is currently making inroads into the rural middle class market after its inroads into the urban markets and rural rich. In the recent years Indian automobile sector has witnessed a slew of investments. India is on every major global automobile player’s radar. Indian automobile industry is also fast becoming an outsourcing hub for automobile companies worldwide, as indicated by the zooming automobile exports from the country. Today, Hyundai, Honda, Toyota, GM, Ford and Mitsubishi have set up their manufacturing bases in India. Due to rapid economic growth and higher disposable income it is believed that the success story of the Indian automobile industry is not going to end soon.

Some of the major characteristics of Indian automobile sector are:

* Second largest two-wheeler market in the world.
* Fourth largest commercial vehicle market in the world.
* 11th largest passenger car market in the world
* Expected to become the world’s third largest automobile market by 2030, behind only China and the US.

Some facts on Automobile industry in India:

* India has the fourth largest car market in the world
* India has the largest three wheeler market in India
* India is the second largest producer of two wheelers in the world
* India ranks fifth in the production of commercial vehicles.
* Hyundai Motors ranks second in car production in the world.

Indian automobile industry; manufacturing cars, buses, three wheelers, two wheelers, commercial vehicles, heavy vehicles, provides employment to a large number of workforce. The abolition of licensed in 1991opened the doors for international automobile manufacturers. Some of the well-known players of Indian automobile industry include: Hindustan Motors, Maruti Udyog, Fiat India Private Ltd, Ford India Ltd., General Motors India Pvt Ltd, and Toyota Kirloskar Motor Ltd among others. The production of automobiles in India is mainly for the domestic customers. Cars with 79% of automobiles in India, dominate the automobile industry in India.

### The Challenge of Competitive Environment

The most important question is how a company can remain competitive in the face of the turbulent transformations taking place in the automotive industry. The key to success lies in being focused, responsive, variable and resilient, which can be accomplished by converting to anon demand company. Adaptively to an ever-changing environment has become the core business demand, requiring problem-solving tools and methods to be identified, selected and implemented quickly. Focused, responsive, variable and resilient are different behaviors required to become more adaptable behaviors whose features correspond with the exigencies of the business objective. If you are hungry at lunch time, you will responsively take a break so that you can afterwards again focus on your work. The vitamins in the salad you had for lunch make you resilient against influenza. Thus you can variably adjust to different weather conditions on the way back home without catching a chill. Transforming this analogy to business, a car manufacturer has seven major strategic levers to enable such adaptive behavior.

Market Share – Automobile industry of India can be broadly classified under passenger vehicles, commercial vehicles, three wheelers and two wheelers, with two wheelers having a maximum market share of more than 75%. Automobile companies of India, Korea, Europe and Japan have a significant hold on the Indian market share. Tata Motors produces maximum numbers of mid and large size commercial vehicles, holding more that 60% of the market share. Motorcycles top the charts of two wheelers with Hero Honda being the key player. Bajaj by far is the number one manufacturer of three wheelers in India.

Passenger vehicle section is major ruled by the car manufacturers capturing over 82% of the total market share. Maruti since long has been the biggest car manufacturer and holds more that 50% of the entire market.

### Major Manufacturers in Automobile Industry

* Maruti Udyog Ltd.
* General Motors India
* Ford India Ltd.
* Eicher Motors
* Bajaj Auto
* Daewoo Motors India
* Hero Motors
* Hindustan Motors
* Hyundai Motor India Ltd.
* Royal Enfield Motors
* Telco
* TVS Motors
* DC Designs
* Swaraj Mazda Ltd

Government has liberalized the norms for foreign investment and import of technology and that appears to have benefited the automobile sector. The production of total vehicles increased from 4. 2 million in 1998- 99 to 7. 3 million in the2003-04. It is likely that the production of such vehicles will exceed 10 million in next couple of the months.

The industry has adopted the global standards and this was manifested in the increasing exports of the sector. After a temporary slump during 1998- 99 and 1999-00, such exports registered robust growth rates of well over 50 per cent in 2002-03 and 2003-04 each to exceed two and- a-half times the export figure for 2001-02.

### The key factors behind the upswing

Sales incentives, introduction of new models as well as variants coupled with easy availability of low cost finance with comfortable repayment options continued to drive demand and sales of automobiles during the first two quarters of the current year. The risk of an increase in the interest rates, the impact of delayed monsoons on rural demand, and increase in the costs of inputs such as steel are the key concerns for the players in the industry.

As the players continue to introduce new models and variants, the competition may intensify further. The ability of the players to contain costs and focus on exports will be critical for the performance of their respective companies.

### Key Research Highlights

1. Passenger car production in India is projected to cross three million units in 2014-15.
2. Sales of passenger cars during 2008-09 to 2015-16 are expected to grow at a CAGR of around 10%.
3. Export of passenger cars is anticipated to rise more than the domestic sales during 2008-09 to 2015-16.
4. Motorcycle sales will perform positively in future, exceeding 10 Million units by 2012-13.
5. Value of auto component exports is likely to attain a double digit figure in 2012-13.
6. Turnover of the Indian auto component industry is forecasted to surpass US$ 50 Billion in 2014-15.

### Automobile Features

* Production volumes in automobile companies have grown by around 2% per year over the last 20 years; however, its relative importance in terms of market value compared to other industry sectors has decreased significantly. Today the automobile industry represents less than 2% of the total European market capitalisation, while 20 years ago the sector was almost double in relative size.
* As a result of tough competition, product cycles have become shorter which creates a crowded market place with newer and fresher products. This also means that 1) the competitive advantage period of a model, or technology, decreases, and 2) research & development costs have to be covered more quickly.
* Recognising market movements first, or even creating them, is a key success factor for automobile companies. For example, early detection of the rising demand for hybrids was an important marketing move for Toyota, while other companies may be launching their hybrids when competition is already quite intense.
* Only about 1/4 of over 50 car manufacturers who were operating 40 years ago have been able to retain their economic independence. Despite this consolidation, overcapacity in the industry is a constant issue, keeping pricing and the return on invested capital under pressure when the cost of capital can often not be covered. A high fixed cost base ensures that companies follow a growth strategy. However, this does not mean more jobs in the sector, but rather that fewer employees in lower-cost countries have to produce more.

### Medium and Heavy Commercial Vehicles

India is the fifth largest manufacturer of commercial vehicles in the world. Performance of this sector during the last 4 years is given in the table below:-

### The main manufacturers are:

1. Tata Group (engines in collaboration with Cummins)
2. Ashok Leyland (in collaboration with IVECO, Italy
3. Volvo India Pvt. Ltd. (wholly-owned subsidiary of Sweden
4. Defence Vehicle factory (in collaboration with MAN, Germany

Opportunities for Canadian companies in terms of exports, technology transfers, strategic alliances, financial collaborations and JV’s

* CNG buses – Modification of engines and supply of kits.
* Fuel cell technology for buses
* Bus body building including school bus bodies
* Heavy duty trailers

### Indian automobile sector – A Booming Market

De-licensing in 1991 has put the Indian automobile industry on a new growth track, attracting foreign auto giants to set up their production facilities in the country to take advantage of various benefits it offers. This took the Indian automobile production from 5. 3 Million Units in 2001-02 to 10. 8 Million Units in 2007-08. The other reasons attracting global auto manufacturers to India are the country’s large middle class population, growing earning power, strong technological capability and availability of trained manpower at competitive prices.

In 2006-07, the Indian automotive industry provided direct employment to more than 300, 000 people, exported auto component worth around US$ 2. 87 Billion, and contributed 5% to the GDP. Due to this large contribution of the industry in the national economy, the Indian government lifted the requirement of forging joint ventures for foreign companies, which attracted global to the Indian market to establish their plants, resulting in heightened automobile production.

### Economic Problems

The problems faced by Indian manufacturers are similar to those battering Indian carmakers — excessive production capacity; a surging new competitor. “ And all of this is happening at a time when the industry is focused on a process of outsourcing components.” In addition, moving plants to Asia “ has become a priority because of such factors as costs, flexibility and technology. Europe, in contrast, becomes a stumbling block [to manufacturers] because of its rigidities and the stagnating demand there.”

The automotive industry currently faces huge challenges. The fundamental technological paradigm it relies on, volume production, has become progressively more unprofitable in the face of increasingly segmented niche markets. At the same time it faces increasing regulatory and social pressures to improve both the sustainability of its products and methods of production. Building on a wealth of research, The automotive industry and the environment addresses those challenges and how they can be met in producing a sustainable and profitable industry for the future.

Hybrid cars require companies to spend more on research. The Indian automakers committed themselves to hybrid motors from the very first moment, and they have taken the lead in the market as a result. Other manufacturers have entered this segment late, and they are now being forced to make a major disinvestment in this concept.” Auto manufacturers are more worried about the environment, and that matters more and more to customers. As a result, they are dedicating more resources to investing in technology for adopting their vehicles. The Indian companies are the ones who have invested more in these devices for quite some time because of their culture of harmony with nature, and the measures imposed by the government.

The Indian firms are gaining market share. Toyota, which does not face the same economic problems as its major rivals, hopes to oust from its spot as the world’s leading automaker. To do that, Toyota is going to invest 10. 13 billion Euros over the next few years. Already; the Indian firm sells more vehicles in the Indian than any other manufacturer.

On the one hand, its SUVs are losing market share. On the other hand, Ford is being affected by discount plans aimed at luring buyers. In addition to suffering high labor costs, it spends a great deal on healthcare and pensions for its workers. Finally, Ford is paying a price because Asian manufacturers are highly competitive.

### AUTOMOBILE TRENDS

* The industry is mature, especially in the European and American markets, while some Asian markets (e. g. China and India) still offer some growth. Overall, demand growth is likely to stay below the nominal GDP (Gross Domestic Product) expansion rate.
* Branding, technological leadership (especially in fuel efficient propulsion technologies and safety) and consequently differentiation, as well as good supplier relations will be the key success factors for the automobile company of the future.
* The regulatory focus on greenhouse gas emissions, as well as the increasingly tight regulations on air pollutants, is creating pressure for automakers to reduce fuel consumption, as well as emissions from internal combustion engines. The trend is moving towards developing drive trains based on new technologies such as hybrids and fuel cells.
* In all consumer markets, whether they are low-priced household goods, food, apparel, or cars, a clear polarization exists. On one side there are people who can afford to buy very expensive automobiles, while on the other, demand for low-cost vehicles is increasing. This trend can be expected to continue and car manufacturers have to ensure that they are not going to be lost in the middle.

### Finding Solutions

In recent years, vehicle makers have gone from an environment in which the level of service and quality assured excellence while costs permitted them to guarantee profitability, to another environment that is more competitive and more global, and in which the business has become more complex.

The problems faced by Tata Motors, the largest automobile company in India. In late January 2009, Tata Motors was reeling under a severe business and financial crisis. The company had acquired Jaguar and Land Rover (JLR) from the US-based Ford Motors for US$ 2. 3 billion in June 2008. To finance the acquisition, Tata Motors raised a bridge loan of US$ 3 billion from a consortium of banks. By the end of January 2009, Tata Motors was yet to pay around US$ 2 billion towards the bridge loan. Moreover, JLR needed further investments, that too quickly, to keep the operations running. Besides this, the commercial launch of Tata Motor’s small car Nano required much more time than anticipated.

Those vehicle makers must ally themselves with suppliers, and work as a team to find solutions that add value and profitability. “ That way, collaboration becomes a strategic option that companies can utilize to improve their competitiveness and guarantee their survival. They can conserve resources, share risks, obtain information, access complementary resources, reduce the cost of developing products and improve their technology capabilities.”

With the Indian economy showing no signs of revival soon, there seemed to be no immediate possibility of an increase in domestic demand. The Managing Director of the Tata Motors was left wondering if the worst was over for Tata Motors and what he should do to revive the company’s performance.

### Issues

» Understand the impact of macroeconomic factors on the business. » Analyze the recent developments in the global economy due to the ongoing sub-prime crisis and the resultant global financial turmoil. » Study the effects of global economic slowdown and its impact on the global automobile industry.

» Critically analyze the problems faced by Tata Motors and suggest probable solutions.

### Conclusion

Today tough challenges in automotive industry require finding in news ways to create value if they are to prosper to successfully adapt these lever companies will be able to respond to changes with focus, responsiveness, variability and resilience.

Today, the world automobile industry accounts for 15 percent of the world gross domestic product and in future will continue to be one of the world’s most important economic sectors. Despite the significant inroads that the transport sector has made into the world export market during the last decade, the sectors share in total India exports is still lower than the relative share of world exports of transport products.

Lastly, the rise of global and regional production networks calls for an efficient transport infrastructure to enable India to become integrated into the network. The global networks require rapid and “ Just-in-time” movement of components of the final product to be able to exploit the available comparative advantages of different locations. If a country does not provide the minimum standards of transport infrastructure, it would be excluded from the participation in the network.

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