

Looking Ahead at the Indian Automotive Scene (Published in FADA Journal- Oct '04)

The global production of cars was 49 mn in 2002. It grew by 4% over 2001. But it fell by 1% in Europe, 5% in Latin America and 9% in rest of the world. The US and Asia were the only growth centers. Europe, NA and Asia now produce 14-17 mn cars each. Global production of Commercial vehicles was 8 mn, 5 mn of which was in Asia.

There were 30 mn 2-wheelers sold in the world. Of these over 70% were sold in Asia. Large markets were China 10 mn, India 5 mn, Indonesia & Vietnam 2 mn, Thailand, Japan, Taiwan 1 mn each and EU 2 mn. The SE Asian market is essentially a step-through motorcycle, like Street, market, which has failed in India. But, unless Indian producers make this animal for export, they will not be able to make any significant dent in Asian markets.

The car industry is topped by GM that produces over 8 mn units, Toyota and Ford around 6 mn units, Volkswagen 5, Daimler-Chrysler 4 mn, Honda, Nissan & Peugeot around 3 mn and Renault & Fiat around 2 mn. Hyundai brings up the rear with 1.7 mn units. BMW, which is a niche player, is another 1 mn. These companies account for 45 mn, or almost the total production of cars in the world.

The 2-wheeler industry is dominated by Honda with 8 mn units. Yamaha is a distant second with 2.5 mn, and Suzuki, Bajaj are around 1.5 mn units. TVS Motors at 1 mn brings up the rear of the big league. There are numerous Chinese producers but all are smaller than Indian producers now. Piaggio is a spent force in 2-wheelers, with its scooter bias. Having made losses continually in the recent past, it has recently been taken over by a take over artist, who will want to sell it eventually.

There are 3 important things happening in the 2-wheeler business. Japanese producers are slowly but surely taking control of the Chinese market. The Chinese are exporting 3 mn units per year. And off course the very aggressive growth of Honda.

Honda has doubled its volume from 4 mn in 2000 to 8 mn in 2003, adding a Bajaj Auto every year to its volume. With a change of strategy from premium pricing to using the low costs of India & China to meet the local competition head on, the Japanese producers, especially Honda are posting significant growth. This is likely to continue.

In the car & 2W market most global players are already in our market. Of the major car manufacturers only Renault/Nissan and Peugeot remain unrepresented. With the hash it made of its venture with Premier, Peugeot is

unlikely to be in a hurry to re-enter. Nissan, which participated in the Auto Expo 2004 with its SUV X-Trail, should be expected to test the waters.

The car industry is a very peculiar industry. Despite its size, it's a very unprofitable industry. Other than Toyota and Honda, almost every car maker has been in the red for at least a year in the last 10 years ! Of these FIAT is still fighting for its life and Ford is still to get its act right. Even the largest, GM, during 2003, is almost making a loss in North America, and a loss in Europe and Latin America. Only Asia Pacific and its finance company are keeping it out of the red.

With there being significant over capacity in North America and Europe, this anemia amongst car producers is not surprising. In 2003, Toyota has ousted Ford from the no. 2 position. With its targeted 15% market share by 2010, its undeclared ambition is to be no. 1. GM currently has around 15% of the world market.

China has been the flavour of the season. In 2003, with 4 mn+ vehicles sold, it has become the fourth largest market for vehicles in the world after the US, Japan & Germany ! And it has been growing at a blistering pace of 30% + per annum.

The Indian car market is actually ripe for change. Despite Suzuki taking it over Maruti is fumbling forward. After the 800 it has not had a real winner. It lacks the balance of product and price attractiveness. Attractive prices are not enough. Cars are status statements, with the customer continually buying one that is higher than his current income really permits. Hyundai's success has been precisely getting this balance right, but it has its own limitations. Or will we continue to see this steady splintering of market shares ?

Almost 10 years ago, I had predicted in an article for "Car & Bike" that the low volume, high value car model strategy of global producers would not work in India. The market size would be too small to sustain them. Progressive lowering of customs duties and free trade agreements may entice them to be in the trading mode, as all barring Hyundai & Ford amongst the new foreign entrants are today; but ultimately they will run out of dealers interested in operating in that mode. They already suffer a higher churn. Talera Motors at Pune is a good case. It started with being a Ford dealer, was a Mercedes Benz dealer for a while. Now it is (or is it ?) a dealer for GM.

In 2-wheelers; two major events will happen. Suzuki will re-enter the market and Honda will come in via HMSI into the motorcycle market.

As far as dealers are concerned, these two events are going to cause a lot of ripples. Historically, most Indian dealers have car & 2-wheeler dealerships, if not a CV dealership thrown in for ample measure. With Suzuki coming on its own, will it willy nilly force Maruti dealers to choose between their car and 2W dealerships ? As Honda indirectly weakens Hero Honda, and therefore Hero Honda dealerships, how will the over capacity of Honda dealerships be resolved ?

The profitability of auto dealerships has always been an issue. The issue was obfuscated by the premia earlier and the eagerness of those in building trade to get into auto dealerships. Now, however, given the stark realities, we are witnessing a churn first amongst weaker company's dealerships. A no. of 2W & CV companies are unable to attract or retain good dealerships. There is a throughput required in each dealership. For example, unless you are selling 300 2Ws a month you are not viable. That means a company selling less than 90,000 2Ws a month is not going to be viable from purely a dealership angle. The no. also ties up with the volumes required to generate profits to develop new products in pace with the market. No prizes for guessing which companies I believe are headed towards decline ! There will be a similar calculus in the car sector.

Will this lead to multi brand outlets ? In most countries of the world , for brands other than Honda, 2-wheelers are sold through multi brand outlets. After a protracted fight even car manufacturers in Europe will have to agree to multi brand outlets. In India legally there is no bar, but in practice there is. For companies not able to provide economical volumes to their dealers, there may be no other way forward. In Mumbai and elsewhere, "informal" multibrand outlets have started to take roots.

As products get complicated one can expect that larger % of servicing will be done by dealers. In cars, this has happened with fuel injection and computer engine controls. FI on 2-wheelers is round the corner. My educated guess about the Honda bike is that it will be fuel injected. Because Honda has already announced that all its scooters would be fuel injected by 2010. So, dealers who are service oriented, most dealers in the country are not, should stand to gain. Or dealers should work hard to improve the service end of their operations; and that is largely a matter of attitude & culture.

Another paradox to be sorted out will be the tension between owner managed and manager-managed dealerships. It is a truism the world over that owner managed dealerships work best. But as the finance and scale of dealerships increase it has become increasingly difficult for owners to function as managers. On top of that is our antipathy for dignity of labor. A lot of dealers feel it is beneath their dignity to run their dealerships! A large no. of manager managed

dealerships have been mismanaged. Because of poor quality of managers, inadequate delegation to them or the managers becoming corrupt.

Lower interest rates, (compared to earlier, in my view they are unlikely to lower; a risk of increasing is quite likely) better finance availability in smaller towns and a more open economy will continue to generate a decent growth rate in the industry. But competition will only intensify and company and dealer performances will get increasingly uneven as unviable players get squeezed. Dealers would have to be both lucky to be with the right producer(s) and be first rate operations to be profitable. We have yet to adjust to a global reality that loss is the natural result of a business. Profit comes to the exceptional performers ! As the ad for the Indian Army said "Do you have it in you ?"

In this scenario, what is the future of Indian producers ?

In CVs they are under the least pressure for the moment. In Cars we have only Tata Motors in the fray. It has done commendably in the face of both financial adversity and public skepticism. But it will take very deft management because the odds are still against it. The much tom tommed MG Rover deal does not speak of competent strategy. MG Rover is a loss making company, in permanent decline, with a dubious management currently under parliamentary enquiry for poor if not fraudulent corporate governance practices.

In the domestic market, overall Hyundai Motors seems to be best placed. It has struck the best balance between product and price attractiveness, backed by sensible marketing. Maruti, though now free to decide, seems to be fumbling its way forward.

Toyota is the dark horse. After the unqualified success of the Qualis, it has surprisingly chosen to stay away from the mass car market. But it has a history of being a quiet builder of market position.

2-wheelers awaits the HMSI bike with bated breath. If Activa with which they became a no. 1 in scooters in almost no time, is any indication; the earth will shake. Honda is playing the end game of its India strategy and like an efficient chess player squeezing the opposition into a corner. But are its opponents right now Bajaj & TVS or Hero ? Bajaj & TVS have shown grit and used the absence of a Splendor upgrade to create space for themselves, but there is not much margin for error and they have been error prone.