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The Automobile Industry in India: A Comparative Study on Issues and Its Impact on Global Environment and Market Structure in Its Changing Environment

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Abstract – Indian automobile industry embarked on a new journey in 1991 with delicensing of the sector and subsequent opening up for 100 percent FDI through automatic route. In view of this, the study attempts to estimate the economic performance of Indian automobile industry in terms of capacity utilization at an aggregate level. It estimates econometrically rate of capacity utilization in the industry at aggregate level and analyses its trend during the post liberalization period, 1991-92 to2005-06.The study also tries to assess the impact of various factors influencing capacity utilization.

Keywords: Automobile Industry, Vehicle, Liberalization

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INTRODUCTION

Automobile industry is the industry of industries called by Peter Drucker. Duration of the last few years, the production and management systems have been revolutionized in the automobile industry. One of the major changes in the industry has been the opening up and growth of several emerging markets. India is one of the most important emerging car economies in the world today. In 1991, the Government of India embarked on an ambitious structural adjustment Programme aimed at economic liberalization, based on the pillars of Deli censing, Decontrol, Deregulation and Devaluation. Post-liberalization, the Government of India's new automobile policy announced in June 1993 contained measures, such as deli censing, automatic approval for foreign holding of 51% in Indian companies, abolition of phased manufacturing Programme, reduction of excise duty to 40% and import duties of CKD to 50% and of CBU to 110%, and commitment to indigenization schedules. The Government of India's new automobile policy attracted a large number of automobile companies to India.

These include General Motors and Ford, and two Japanese, seven European and two Korean companies. Toyota and Chrysler are also seeking to enter the country with suitable Indian partners. In addition, there are three existing Indian companies, Hindustan Motors, Premier Automobiles and Telco, and one Indo-Japanese venture, Maruti already in the passenger car market. Maruti is by far the biggest player with about 70% of the market share. As of April 1997, a total of 7 Automobile companies (Daewoo, Peugeot, Fiat, Ford, General Motors, Merc, Audi) have already started selling cars, while another 8 companies (Honda, Mitsubishi, Renault, VW, BMW, Toyota, Hyundai, Chrysler) have either begun operations in India or plan to start soon. Some Indian companies like Telco and Kinetic are also working on introducing small car models.

REVIEW OF LITERATURE:

Indian automobile industry embarked on a new journey in 1991 with deli censing of the sector and subsequent opening up for 100 percent FDI through automatic route. In view of this, the study attempts to estimate the economic performance of Indian automobile industry in terms of capacity utilization at aggregate level. It estimates econometrically rate of capacity utilization in the industry at aggregate level and analyses its trend during the post liberalization period from 1991-92.

Arthur (2009, p.19) notes that technologies inherit parts from the technologies that preceded them, and that new technologies must also come into being as combinations of what already exists. Many companies (such as Volkswagen and Renault) feel that a mono-supplier strategy (such as in Ford) is not good but having limited number of large suppliers are of a better strategy. Ford pushes the supplier to own the tools, a strategy of pushing the risk associated with volume fluctuations onto the supplier rather than Ford. Suppliers will have to be concerned with their amortization schedule when quoting prices because payback for the investment in tools must be included in price (Veloso& Kumar 2002). According to Copeland et al. al. (2005) companies develop only one vintage of a product at a time and accumulate inventories and consequently sell multiple vintages of the same product simultaneously. Sudhir (2001) uses the ability-motivation theories and argues that in markets with high concentration and stable environment cooperative behaviors among producers are sustainable and therefore provide firms with the ability to cooperate.

IMPACT OF GLOBAL ENVIRONMENT TO AUTOMOBILE INDUSTRIES:

In today's highly competitive global environment a company's ability to introduce innovations is a key success factor for sustaining competitive advantage (Davila et al., 2007; Tidd et al., 2001). Launching new products on the market is important since product innovation is necessary for companies to adapt to changing conditions in markets, technologies and competences (Dougherty and Hardy, 1996, Utterback, 1996; McDermott and O'Connor, 2002; Bessant et al., 2005; Pavitt, 2005). In this thesis I have chosen the definition of a product innovation made by the Organization for Economic Cooperation and Development (OECD, 2005, p. 48):

A product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components andmaterials, incorporated software, user friendliness or other functional characteristics. The study also tries to assess the impact of various factors influencing capacity utilization. In this study, optimal output is defined as the minimum point on the firm's short run average total cost curve and the rate of capacity utilization is merely ratio of its actual output to capacity output level. We use an econometric model to determine the optimal capacity output. Our result shows that capacity utilization has been improved after the path breaking economic reforms initiated in 1991 at the rate of around 5 percent per annum but capacity grows more rapidly than output growth. In view of identifying several factors that influence capacity utilization, result suggests that coefficient of export-intensity variable, import penetration ratio are negative which indicate that capacity utilization was relatively lower in firms belonging to industry characterized by high export-intensity and import penetration.

A positive relationship is found between size and capacity utilization and similarly between market share and capacity utilization Indian automobile industry went aboard on a new journey in 1991 with deli censing of the sector and subsequent opening up for 100 percent FDI through automatic route. Since then ,almost all the global majors have set up their facilities in India taking the level of production from 2 million in 1991 to 9.7 million in 2006[SIAM,2007-08].

BARRIERS FACED BY AUTOMOBILE INDUSTRY:

Some of the entry barriers faced by automobile companies in India are relatively high levels of import duties, a nascent ancillary industry, and product modifications required for relatively poor road conditions and high levels of heat and dust. On the other hand, a rapidly growing middle class, rising per capita income, and high levels of latent unsatisfied demand with customers starved of world class options promise enormous opportunities. For instance, from current sales of around 300,000 passenger cars in 1996-97, sales are expected to anywhere between 850,000 to 1.7 million vehicles by the year 2000. Automobile companies have announced plans to capacity of around 900,000 vehicles by the year 2000. The number of cars sold over the next four years is going to be anywhere between 2 and 3.5 million vehicles. It is not certain how exactly demand will grow and on what factors it will depend, and whether there is room for so many players.

THE INDUSTRIAL STRUCTURE

Suzuki was the first MNC to enter India in 1981 through a joint venture with the Government of India and set up Maruti Udyog Limited. Currently, Maruti has around 70% of market share, and the Maruti 800 in the small car segment is the best-selling model Since 1995, the industry is witnessing a sea change with the introduction of several new models by MNCs coming into India through joint ventures with Indian partners. In the super-premium segment there is the Mercedes Benz's E-class sedan. BMW and Audi are also considering plans to sell cars. New introductions in the premium segment are General Motor's Opel Astra, PAL Peugeot's 309, Maruti's Esteem, Telco's Sumo, Estate and Sierra, DCM Daewoo's Cielo and Sipani's Montego. In the economy car segment, Fiat Uno and Telco are expected to produce 60,000 cars each per annum.

The power relationship between automobile companies, dealers and customers is going to change substantially as the industry moves from a supply constrained sellers' market to a demand driven buyers' market. Thus dealers and customers are going to acquire greater power.

ADVERTISING & COMMUNICATION

Advertising in the Indian passenger car industry hardly existed till the onset of competition. Today however, the industry is one of the highest spenders on advertising among consumer durables.

A sizeable bulk of this has been spent by the new entrants to create brand awareness. An interesting aspect to not is that the advertising strategies for most of the new entrants have changed several times within a short period of one year. The advertising strategies of some of the companies are given below as illustrative examples: Hindustan Motors (HM) has traditionally put in advertising efforts for the low-selling Contessa Classic, and not so much for the good old Ambassador. But with a plethora of new brands in the Indian market, HM has stepped up its advertising budget significantly. The company feels that the importance of advertising is set to further increase in this market with greater competition. The company is also introducing several promotion strategies like Contessa Campaign Scheme, free servicing, shields for noproblem performance and customer gifts.

Advertising has been concentrated to the print media. The company also recognizes that effective PR exercises would be a critical component of its marketing efforts in future.

The advertising communication for General Motor's Opel Astra handled by McCann-Erichson India has seen some discernible shifts. Initially, it talked of a rare combination of German engineering, American management and Indian values. Then, there was a delay in its product launch, and it showed ads showing a pregnant woman and saying: "All good things are worth the wait". Finally, when the car was launched, GM advertised its launch and announced the opening of an Astra club (of customers). Its ads now subtly point to Europea uppitiness and product superiority.

CONCLUSION:

Amongst the many issues facing the Indian automotive industry, the biggest by far is the poor road infrastructure.

India's road network, comprising of a modest national highway system (that is only 2% or less of the total roadway length) is unhappily insufficient and decrepit, and can barely keep pace with the auto industry's rapid growth. Most roads are single-lane roads built in the 1950's and 60's, and are crowded with two-wheelers, bullock carts, and even pedestrian humans and cows. Traffic laws are not well enforced leading to one of the highest per-capita accident rates in the world.

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