INDIA- MARKET FEASIBILITY STUDIES

Before going into any market it is necessary to do a feasibility study to know certain facts regarding:

a) the location of the market and its characteristics; and

b) The competition.

Only then can we come up with a **marketing mix** strategy -Products and services; the Price structure; Promotion and Place- the distribution/sales channels. Given below is an analysis of the Indian market conditions keeping the two car companies in mind.

5.1 ANALYSIS OF THE EFFECT OF DEMOGRAPHICS

The demographic factors are of interest to marketers because it involves people and people make up markets (Kotler 1996). Language, ethnic groups, religion and income groups all determine the market segments and the marketing strategies needed. The key demographic factors, which I consider important in my study, are discussed below:

5.1.1 ETHNIC GROUPS

Malaysia has a major advantage over other countries planning to export or start up manufacturing in India due to the fact that it has a quite sizable population of different Indian ethnic groups the majority of whom are the Tamils, which still maintain emotional ties to India. Besides the Tamils, Malaysia also has a sizable population of Malyalees, Punjabis and Gujaratis among others. In the negotiating process, Indian companies like to be given the importance. It is only natural that, building up a good cooperative and trusting atmosphere with their Indian counterparts would be easier

considering that they are from similar ethnic backgrounds as compared to the Japanese, Americans and others.

5.1.2 RELIGION

As mentioned earlier, majority of Indians are Hindus. Proton may have to modify their present logo so as to be acceptable to consumers of different faiths. It has an Islamic touch which may not be looked at favorably by the Hindus and people of faiths other than Muslims. A religiously neutral symbol can be taken for the Indian venture. I suggest they use the logo adopted by Proton Cars (UK) Ltd. and Proton Cars Australia Pty. Ltd.

5.1.3 LANGUAGES

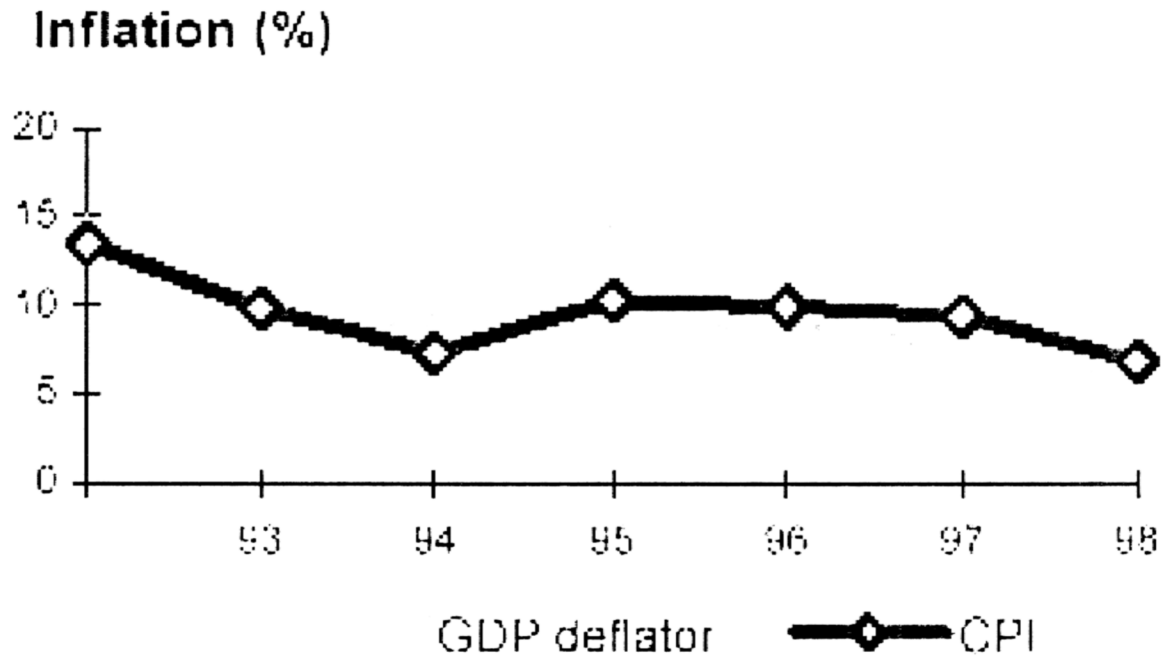
Usually English and Hindi are the safest languages to use in India, as these are the most widely spoken languages. Never the less, other major regional languages also have to be given due consideration. None of the brand names, viz., Proton, Perodua, Wira, Satria, Perdana, Tiara or Kancil were found to have any negative connotations or meanings, in any Indian language. On the contrary, some of them have positive connotations not surprising as many Malay words are derived from Sanskrit. For example, "Putra" in Hindi means "son," " Satria" is similar to the Sanskrit word "Kshetria," which refers to the warrior caste. "Perdana" sounds like, "Pradhan," meaning "most important." "Tiara" in Hindi means "Bow." " Wir" means, "brave" and "Wira" is Punjabi for "Brother."

5.1.4 INCOME GROUPS AND BUYING PATTERNS

According to the study by the National Council of Applied Economic Research (NCAER), Indian consumers fall into three groups (India Info. Inc., 1999):
(i) The *Very Rich* (annual income over Rs 215,000) will increase from 1 million to 6.2 million households by 2006-7.
(ii) The *Consuming Class* (annual income of RS 45,000-215,000) will grow from 28.6 million to 90.9 million households by 2006-7.

Figure 6.1: Inflation Rates (%)

(Source : World bank, 1999)



(iii) Those in the *Aspirants* (Rs16,000-22,000/year) and *Destitute* (less than Rs16,000/year) groups will decrease significantly.

This information is significant for marketers as the information indicate that the number of potential car owners (middle and high-income groups) is high and rising. According to a recent study of the U.S. Department of Commerce (Doing Business in India, 1999), India is one of the fastest growing automotive markets in the world. Annual demand for passenger cars, which currently stands at 400,000, is expected to reach 700,000 by the year 2000.

It would be advisable for any car manufacturer who enters India to look at those states with a high degree of **urbanisation,** as they are where the consumer spending is the highest. The four biggest metropolitan cities in India are Delhi, Calcutta, Chinnai and Mumbai. Other big cities worth mentioning are Pune in Maharastra; Surat and Gandhinagar in Gujrat; Gurgaon in Haryana; Bangalore in Karnataka; Hydrabad in Andhra Pradesh; and Chandigarh and Ludhiana in Punjab. For majority of Indian consumers, luxury or extra features are not so important as the perceived value for money. Proton and Perodua can benefit by giving them inexpensive, no frills standard but good quality models.

5.2 ECONOMIC RISK ANALYSIS

Now, many of the country's economic fundamentals including Gross national savings (21.9% of GDP) and reserves including gold (now about US$30 billion) are strong. At present, the Gross Domestic product (GDP) is US$ 420.8 billion with an average annual growth of 6%. The Gross National product per capita (GNP) using the Atlas method, stands at US$430 with an estimated growth of 4.7% (source: World Bank, 1999). Besides this, industrial production growth rate was 5.9% (1998). Inflation had been a source of worry for many economic planners but it has been going down (given in **fig. 6.1**).

India has also rapidly moved away from an administered exchange rate regime to a market-determined exchange rate system. In compliance with

Article VIII of the International Monetary Fund (IMF), the Indian rupee is now fully convertible on the current account and, for foreign investors, it is also convertible on the capital account. The changes in exchange rates: Indian rupees (RS) per US$1—42.508 (January 1999), 41.259 (1998), 36.313 (1997), 35.433 (1996) (CIA web-page 1999). The opening of the economy has gone so far ahead that it cannot be turned back. As the automobile market is highly sensitive to economic cycles and to government policies, this is good news for potential investors including Proton and Perodua.

5.3 INVESTMENT LOCATION ANALYSIS

The decision to choose the best location for the project in terms of infrastructure, incentives, nearness to resources etc. will have the greatest impact on the company's success in India. The parameters in choosing a location in India are (i) Labor and other Resources; (ii) Infrastructure; (iii) State Government Support and Flexibility; and (iv) Cost and other Incentives. For this purpose, I have taken the help of Gallup-MBA Poll 1997 (Business Today 1998) to select the top 4 Indian states considered best to invest in:

1. **Maharashtra**

A western Indian state, it was rated as the best place to invest in both 1995 and 1997. The capital city, Mumbai (formerly Bombay) is the financial capital of India.

Pros:

- Well developed and fast-improving infrastructure. Domestic airports: 5; International Airports: 1; Ports: 55.
- Most investment friendly among all states in India with several Government concessions and incentives.
- High degree of urbanisation and large market for goods and services.

Cons:

- Labour shortage and high minimum wage rates.
- Deficient and costly poor supply and slow growth in creation of new capacity.

2. **Gujarat**

Lying on the Western coast of India is acknowledged for its consistency in seeking and supporting investment.

Pros:

- Strong physical infrastructure, having a good network of roads, railways and telecommunications. Domestic Airports: 10; International airports: 1; Ports: 41.
- Politically stable and supportive state Government.
- Availability of highly skilled labour at relatively low wages.

Cons:

- Deficient power supply and high power tariffs.
- Frequent and prolonged industrial disputes.

3. **Tamil Nadu**

Located on the southeastern coast of India and is the second most urbanised state in India.

Pros:

- Business friendly Govt. policies
- Good physical infrastructure with good telecommunications network, railways and road connections. Domestic Airports: 5; international Airports: 1 and Ports: 12.
- Availability of skilled and low cost labour.
- Auto industries is on of the state identified priority sectors.

Cons:

- Worsening power deficiency and high power tariffs.
- Corruption in local administration.

4. **Karnataka**

Located in the South of India, it is one of the hottest destinations for business. The capital Bangalore is referred to as the Silicon Valley of India.

Pros:

- Business friendly state government. Local administration also relatively less corrupted.

- Availability of skilled labour with very few industrial disputes.
- Good infrastructure with easy connection to large markets. Domestic airports: 6; international airports: 1; Ports: 10.
- Auto industries is one of the state identified priority sectors.

Cons:

- Acute power deficiency and high power tariffs.
- Slow growth of growth in railways and road networks.

On the basis of the above analysis, I feel that Tamil Nadu is the most attractive place now in terms of investment. **Chennai**, the capital city of the state, offers the following advantages:

- **Labor:** Highly skilled labor force. The labor unions are not as militant as in West Bengal, for instance. Further most other auto ventures such as Ford, Hyundai and Mitsubishi are also located in Chennai. This will also help in obtaining skilled labor.

- **Infrastructure**: Infrastructure such as Power, communication and roads are quite good in these two places. Most auto parts companies are located in Chennai. The Chennai port is the most efficient in India and is also located on the East Coast. Thus offers easy access to the neighboring Asian countries including Malaysia.

- **Government:** The state government has given priority to the auto industry. Incentives include free land, sales tax holidays, and electricity concessions.

- **Ethnicity:** The Tamils make up majority of the population in the state. This is favourable from the viewpoint of the Malaysian car companies as Malaysia has a sizable population of Indians of ethnic Tamil origin. Can benefit in negotiations, interpersonal communications and also in marketing by having Tamils in the Malaysian management team.

5.4 ANALYSIS OF MARKETING INFRASTRUCTURE

5.4.1 ADVERTISING

Contrary to popular belief, the sophistication of advertising in India is at par with world standards. Value added information such as television rating points, audience profiles, and opinion polls are available to marketers. The two national car companies can employ the services of international advertising agencies such as Ogilvy & Mather, J W Thompson, BBDO, Young & Rubican, Lintas, McCann Ericsson, Leo Burnett besides a host of local companies are present in India.

Among all forms of advertising mediums used commonly in India, including newspapers, magazines and billboards, the most popular mode is through television. About 75 per cent of the population have access to TV. The popularity of cable TV has been a boon to advertisers with the result that Indian consumers are highly brand aware. This is contrary to the belief of a Proton Company executive, which considered the brand awareness of Indian consumers low.

5.4.2 MARKET RESEARCH

Several leading companies provide market intelligence services. The National Council of Applied Economic Research (NCAER) is the leading survey-based economic research body on consumer demographics in the country. It conducts surveys of around half a million people on a regular basis to provide and update basic marketing statistics to Indian industry. Other players like Marketing & Research Group (MARG) and Indian Market Research Bureau (IMRB). The process of compiling, analysing and reporting of car consumers in India has been carried out by **JD Power and Associates**, which specialises in consumer studies for the automobile segment. These results can be used by the automakers to improve or modify their models. Proton is currently doing its own Market Feasibility Study for entering India. Proton and Perodua (if they decide to enter India), can make use of all the previous work done by various researchers.

5.5 POLITICAL RISK ANALYSIS

The Political Risk in India is perceived to be quite high. A series of weak coalition governments (three coalition governments in 18 months) had lacked the political strength to push reforms forward to address various problems. This had also frightened away many potential foreign investors, as it is difficult to make economic decisions amid the political uncertainty. No party won a majority in the March 1999 general election and the Bharatiya Janata Party (BJP) now in office leads a fourth coalition government. Though the new Government has dispelled the fears of many foreign investors by continuing with the economic reforms, problems between the coalition partners still remain an issue of concern to foreign investors

5.5.1 LEGISLATION

Even though consecutive governments have succeeded in opening up the Indian market to a large extent, many laws remain which discriminate against foreign companies and seek to protect local industries. However, State governments are also competing with each other for investment and economic growth, offering an array of incentives. The foreign companies can take advantage of these new developments. Below I discuss some of the more important.

5.5.1.1 Approval

All proposals involving FDI and technology transfer require approvals from the Government. The Foreign Investment Promotion Board (FIPB), a specially empowered Board has been set up to speed up the approval process and has the flexibility to examine all proposals in totality, free from predetermined parameters or procedures. Approval of the project by the Cabinet Committee on Economic Affairs is necessary. The approval process takes between 3 to 6 months from the submission of the application.

A legislation of concern to foreign manufacturers is the one requiring all new entrants to sign a memorandum of Understanding (MOU) to:

- invest a minimum of US$50 million within 3 years,
- achieve 50% of local content in 3 years
- In the case of motor cars, automatic approval is subject to a condition of dividend balancing (outflow on current account of dividend payments to be balanced by foreign exchange earnings, i.e., export the same value brought in to achieve forex neutralisation after the third year).

Many feel that this is in contravention of the WTO rulings. The way I see it, the ruling is not at all bad considering that increasing local content would lower the cost of production and using economies of scale, can export cheaper to other countries, maybe even back to Malaysia.

5.5.1.2 Foreign Technology Agreements

In terms of Foreign Technology Agreements, The Reserve Bank of India (RBI), accords automatic approval in all industries within prescribed monetary limits which include (National Informatics Centre, 1999):

- Lump-sum payments up to RS 10 million (approx. US$ 280000)
- Payments subject to an overall ceiling of 8% of total sales over a period of 10 years from the date of agreement.

5.5.1.3 Labour Laws

One such area of concern to foreign companies is that of labor law. In India an employer with more than 10 workers cannot fire them without permission from a government labor commissioner. This is near impossible to obtain, as labor is such a sensitive issue. Even in the event of Plant shut down, the Labor laws in India do not readily allow termination of employment. Thus, exit barriers are quite high and firms are faced with the risk, especially in the event of over capacity. Capacity planning is hence critical to the project. One of the ways to get over this problem is to do contract hiring. The laws that the two

Malaysian companies have to study before going in are those which deal with Industrial Disputes, Factory Conditions, Wages, Bonus, Gratuity, and Insurance. Regarding Corporate Laws, the Companies Act governs corporate law.

Regarding **employment of foreign nationals**, the Indian Government is quite lenient. The two Malaysian companies would be able to engage the services of foreign nationals as well as Malaysians. This is important, given that the two companies will want to maintain some control over the Indian operations by sending managers trained and chosen by them to monitor the operations. Employment contracts have to be registered with the government and renewed on an annual basis. Salaries may be made from blanket permits or free foreign exchange in accordance with RBI guidelines.

5.5.1.4 Intellectual Property Rights

An established regulatory environment gives India a distinct edge in comparison to other Asian nations such as China and Thailand. The various, Intellectual Property Rights Acts in India are i) Indian Copyright Act; ii) TradeMarks and Merchandise Act; iii) Patent Act and iv) Designs Act. The Patents are protected for duration of 14 years. With respect to the automobile industry, infringement is a greater risk in the auto parts industry especially in the replacement market. India is party to the Uruguay round of the GATT and intends to abide by the obligations arising out of the Trade related aspects of Intellectual Property Rights (TRIPS).

5.5.1.5 Laws Regarding Product Specifications

The Indian laws are not so stringent as compared to other developed countries, for example, the European markets. Under the **Motor Vehicles Act of 1988**, every component used has to comply with standards laid down by the **Bureau of Indian Standards (BIS).** The Act outlines rules regarding brakes, wipers, steering, safety glass and lights. **Noise pollution** hasn't been dealt with except for rules against the use of air horns. Recently, the number

of organisations calling for stricter regulations has been increasing. The Indian Supreme Court has ruled that only vehicles, which conform to **Euro II** norms, will be registered in the **national capital region** (NCR) and the surrounding areas. The interim order has a major impact on the automobile industry in general and on market leader Maruti Udyog Limited in particular as the entire range of models such as the best selling Maruti 800 do not conform to the Euro I norms. This is because majority of the automobile sales in the country are in the NCR. Other major players, such as Hyundai, Telco, General Motors and Ford have indicated that they would strive to achieve Euro II norms as soon as possible. This is good news for the two Malaysian carmakers as the two car companies have already passed the UK standards and have or nearly passed the Euro standards.

5.5.2 TARIFF STRUCTURE

Import of motor vehicles falls in the restricted category. Imports of CBUs by companies are not allowed. Vehicles can be imported against a specific license or in accordance with a public notice issued by the DGFT. Capital goods, raw materials, components, parts, intermediates and consumables for the manufacture of vehicles can be freely imported unless they appear in the negative list of imports. The import duties in India are in India are quite high. This is indicated by the following information:

(i) Excise duty rates for motor vehicles: 10 to 40 per cent;
(ii) Excise duty rates for components and parts: 10 to 25 per cent;
(iii) Customs duty on motor vehicles: 50 to 110 per cent;
(iv) Customs duty on auto components and parts: 37.5 to 87.5 per cent.

This has far reaching consequences especially in the initial entry period when a major part of the car consists of components and assemblies imported in completely knocked down (CKD) units. Ultimately, increasing local (Indian) content is the only way to reduce the cost of the vehicles. Another, interesting information is that, vehicles that are fuel-efficient attract less excise duty and can avail of concessions in the customs duty.

5.5.3 TRADE AGREEMENTS

Various trade agreements have been signed between the two countries, given below in **appendix 10**. Among the most important are (I) the Double Taxation Agreement which is to avoid multiple taxation on the same product and (II) the Investment Guarantee Agreement, which is to ensure against non-commercial risks such as expropriation and nationalisation and to allow for remittances and repatriation of capital.

5.6 INDIAN CAR INDUSTRY ANALYSIS

The Indian automobile market consists of 4 distinct sectors, viz., i. Passenger Cars; ii. Heavy commercial vehicles and light commercial vehicles. iii. Two wheelers and iv. Tractors. For my study, I will be concentrating on the first segment, the Passenger car market. Analysis of the Indian automobile industry was carried out using '**Michael Porter's five forces model**.' In scanning the automobile industry in India, I have assessed the importance of the five forces, viz., i) Threat of new entrants; ii) Rivalry among existing firms; iii) Threat of substitutes; iv) Bargaining power of buyers and v) Bargaining power of suppliers and then analysed the industry by rating each competitive force as high, medium or low.

5.6.1 THREAT OF NEW ENTRANTS

Proton and Perodua as potential new entrants to the market, we are more concerned with the possible barriers to entry. The possible barriers to entry include i) Economies of scale; ii) Product differentiation; iii) Capital requirements and iv) Access to distribution channels.

- Currently barriers are not high enough to prevent new entrants because the industry is in a state of infancy. Foreign manufacturers are still in the process of setting up ventures. The markets are not expected to start maturing until well beyond 2005 when capacities stabilize and higher

levels of penetration are achieved. Only the indigenous companies have economies of scale but their R&D is not world standard.

- Also the only car company to have several car models across market segments is Maruti Udyog Ltd.
- Capital requirement is an issue of concern. Companies have to decide their method of entry and also ways to finance it.
- Entry barriers are likely to become a more serious matter of concern as companies develop well-entrenched distribution networks with sufficiently large production capacities.

There are many companies waiting and having their own feasibility studies before going into the Indian passenger car market including Toyota, Chrysler and Proton. Czech carmaker Skoda, part of the Volkswagen group, which originally planned to invest in manufacturing facilities in Maharashtra, now plans a soft entry similar to that of Proton by using local manufacturers to make its products. Skoda has indicated that it will occupy the mid-size car segment.

5.6.2 RIVALRY AMONG EXISTING FIRMS

5.6.2.1 Analysis of Various Players

Given below is an analysis of the various Indian car companies and who will compete with Proton and Perodua (listed alphabetically), with a brief description of their strengths vis-a-vis Proton and Perodua models. In depth analysis of each, is out of the scope of this study. (Cybersteering, 1999; Economist, 1997a; Indian Express, 1999; source: JD Power Japan website, 1999; Sidhva, 1998; Times of India, 1999).

- **Daewoo Motors India Ltd. (DML)**

DML is a joint venture between Daewoo Corporation (92% equity) and DCM Ltd. (an Indian business group) established in 1995. It offers several versions of the **'Cielo'** of which the **'Executive'** is the latest version, the **'Matiz'** and the **'Nexia.'** They plan to introduce automatic versions later this year. Daewoo

Motors overestimated the demand for mid-size cars following a boom in 1994-95 and in January 1999 and was forced to cut prices by nearly 20% to increase sales. It realised its mistake and set out to bring out the small size car- the Matiz and performance has improved with an increase in sales as compared to last year with 25,342 units sold.

- **FIAT India Automobiles Ltd.**

Established in 1997 as a JV between FIAT Group and Premier Automobiles Ltd., which is now a wholly owned subsidiary. It offers the **'Uno'** and **'Siena**.' The Fiat Uno Trend has been phased out. The venture intends to manufacture a small car, **'Palio'** in India by mid 2000. Fiat has so far invested $200 million in India and has set up a huge car manufacturing operation in Maharashtra, in Ranjangaon with a capacity of 100,000 units a year to turn out its **178**-World car. A Fiat group company, Magneti Marelli, manufactures components in Pune. It has also set up a company for development and training, Isvor India, in Pune, which will train managers for Fiat group companies as well as other companies, while Its financing arm, Fidis is also setting up a subsidiary with an Indian partner to handle car retail financing activities. Proton can follow a similar step by bringing in EON.

- **Ford India Ltd.**

Was established in 1996, as JV between Ford Motor Co. and Mahindra & Mahindra Ltd. It inaugurated a350-acre plant at Maraimalai Nagar, Chennai on March 19, 1999. Initially it offered only the **'Ford Escort'** but has decided to phase out its production. The new **'Escort SPORT-E'** was recently launched which is the first sporty model in India. The earlier Ikon models are available in 1.6 and 1.8 litre diesel engine. It is planning to come out with a new 1.3 litre 'Endura' engine version of the **'Ikon'** and as such would compete in both the small car and mid size car segments.

The Ford Escort was voted as the Best Quality Car in 1997 by consumers in a study conducted by JD Power and Associates. Inspite of this, it had to face declining car sales. So, Ford has been trying to make their cars more

affordable to the Indian customers without sacrificing quality. The new Ford Ikon has a local content of about 70 per cent. They also plan to export manufactured spares and components, gradually leading to export of CKDs. This shows that the company is planning to stay long term in India.

- **General Motors India Ltd.**

Established in 1996 as a joint venture between General Motors Corp. (50% equity) and Hindustan Motors (under the Birla Group of companies). It offers the **Opel Astra** and the recently launched **Opel Club** (in petrol and diesel versions). Of all car manufacturers, General Motors was the worst hit. Sales fell to 1834 units this year as compared to sales of 2801in the previous period, which shows that even the big companies can fail in India.

- **Hindustan Motors**

Hindustan Motors is part of the Birla group of companies. Established in 1948, it has the second largest vehicle sales and manufacturing volume in India. Offerings include the **'Ambassador'** and **'Contessa.'** Hindustan Motors also Joint Ventures with Mitsubishi to manufacture the **'Lancer'.** The company also has a venture with General Motors to manufacture the Opel Astra. From the latest news, it appears that Hindustan Motors is the partner chosen by Proton to enter India and feasibility studies are still going on.

- **Honda SIEL Cars India Ltd.**

Was established in 1997 as collaboration between Honda Motor Company (90% equity) and Shriram Industrial Enterprises Ltd. (The SIEL Group). It produces the **City**. Indian customers have voted this car as one of the best mid-size cars. A heavy marketing blitz helped Honda sell 4,000 of its Honda City but it's sales have fallen 7.7% during the first nine months of the current fiscal as compared to the previous period.

- **Hyundai Motor India Ltd.**

It is a fully owned subsidiary, established in 1996 by the Hyundai Corporation. It offers the **'Santro'** and the recently launched **'Accent'**. The company spent

the 2 years developing the car custom-made for the Indian market at its Tamil Nadu factory. Due to its aggressive marketing strategies, it is one of the fastest growing companies in India. Hyundai sold 51,118 units of Santro and Accent cars during the current fiscal as compared to 8,448 in the corresponding period last year. It plans to use India as a major export base for engines and transmission components and cars eventually.

- **Maruti Udyog Ltd (MUL)**

The biggest potential competitor to Proton and Perodua, MUL is a joint venture between the government and Suzuki Motor Corporation, and established in 1983. It has the widest range of vehicles across different segments with a utility vehicle -'**Gypsy**', a small car -**'Maruti 800'**, (the largest selling car in India), the **'Zen,' 'Maruti 1000'** and '**Esteem**' saloon cars and a mini van '**Omni**'. Suzuki Motor Corp. recently announced its plan to launch a new model every year in India through its joint venture. New offerings include the **Zen Classic** and the '**Baleno**', a mid size saloon directly competing with Opel Astra, Honda city and Mitsubishi Lancer. It plans to bring out the "**Wagon R**' which is a multi utility vehicle in year 2000 and the '**Alto**', in two variants, in 800cc and 1000cc models.

MUL has distinct advantages in terms of having the most favorable cost structure in the industry and support of the government. Maruti leads with sales of 295,357 units, which is an increase of 245% from last year's figures. It has some problems with its Japanese partner. Recently, the leadership problem was resolved but some other issues still remain. These include refusal of the Indian government to dilute its stake and technology transfer. Suzuki still holds the gearbox technology.

- **Mercedes-Benz India Ltd.**

Established in 1995 in a joint venture with Tata Engineering and Locomotive Company Ltd. (Telco) and Mercedes Benz AG (81.33%). It manufactures the **E-series** and targets the small luxury car segment. Sales have fallen by 26.9 with only 715 units sold in this current fiscal. Mercedes has accused Telco of

not helping in marketing its cars even though Telco gave access to its distribution channels. This can also happen to the Malaysian car companies if they do not pay attention.

- **Premier Automobiles Ltd.**

It was established in 1944 and is largely owned by the Doshi family. The public owns around 40% of the company. PAL manufactures the **Premier Padmini** (model based on the 1967 Fiat 1100D) and has a joint venture with Peugeot to manufacture the **309**. The company also has a JV with Fiat. It's total sales in 1997-1998 was 11,368 cornering a share of 3% of the Indian car market.

- **Tata Engineering and Locomotive Company Ltd. (TELCO)**

Telco is part of the Tata group of companies. The group is owned by the public and has interests in steel, autos, financial services, telecom, infrastructure, consumer products, and power. Established in 1954, Telco is India's largest automobile company and is the market leader in trucks. It has also made a successful entry into the utility vehicles market. Telco has a joint venture with Mercedes Benz. Its other international collaborators include International Automotive Design (UK); Robert Bosch GmbH, (Germany); I.DE.A (Italy) and Le Moteur Moderne (France). The product range includes the **Tata Sierra**, **Estate**, **Sumo** (all utility vehicles) and the 1400cc **'Indica,'** the first fully indigenously developed car. The Indica is without any imported parts and is the most competitive in its class. Telco cars sales went up by 12 times to 7822 units against only 653 units sold in April-June 1998-99, having a market Share (97-98) of 33%.

- **Toyota Kirloskar motor Pvt. Ltd. (TKML)**

It is a new entrant to the market, formed by a joint venture between the Kirloskar Group and Toyota Motor Corp with Toyota holding 88.86% equity to Kirloskar group's 11.14%. It is planning to launch the multi utility van, **'Qualis'** soon, positioning it as a car and benchmarking itself against vehicles such as the Mitsubishi Lancer with the price still a secret. According to a senior official

at TKML, Toyota corp. needs at least three years for its Indian joint venture to be capable of manufacturing passenger cars.

NOTE:

Of the various car companies, only Hyundai entered as 100 % FDI. Most of the automobile companies that started off as joint ventures have been more or less taken over by the foreign partner. These include Fiat, Mercedes Benz, Ford, Honda and Daewoo. Thus we see that conditions are more favourable even than in Malaysia, which allows foreign partners to have a share of up to 30% only.

5.6.2.2 PRODUCT COMPETITOR MATRIX

Given in **Figure 7.1 and 7.2**, is the product competitor matrix. Using the matrix we will have an idea of the competition's offerings vis-à-vis, Proton and Perodua models. Market perceptions are quite different in India as compared to Malaysia. I have taken 'Engine Capacity' and 'Price', as the 2 parameters on the matrix for the following reasons:

1. **Engine capacity**:

I have chosen engine capacity (in cc) as one of the parameters as it is broadly an indicator of the weight of the car, the size and the load dragging capacity. Even though, engine capacity is not necessarily an excellent parameter as many of the so-called 'small cars' have higher engine capacity as compared to bigger size car models. These include some of the new cars such as the Telco India models, Fiat Uno models, etc., which have a small body but have engines above 1000cc. I have differentiated the various car models on the basis of body size, into either 'Small' or ' Big'.

2. **Price**:

Indian customers are extremely price sensitive and weigh performance of their cars in terms of 'value for money'. Prices may vary from city to city. Here, I have given the prices in the two major cities of India, viz., Delhi and Mumbai (Bombay). Over all, we see that the prices in the two major cities vary quite a

Figure 7.1: Competitor Matrix (Small Cars)

(Note: Diesel models in Blue)

(Source: Cybersteering.com website)

Make	Model	Engine capacity cc	Approx. Price on Road (RS) (1RM= approx. RS11.47)	
			Delhi	Mumbai
DCM Daewoo	Matiz SE	796	366,395	420,125
DCM Daewoo	Matiz SS	796	282,243	324,201
DCM Daewoo	Matiz SD	796	320,773	368,093
DCM Daewoo	Matiz SP	796	386,680	443,241
Fiat India Ltd.	Uno Delux Ptrl	999	280,148	318,398
Fiat India Ltd.	Uno Delux Dsl	1697	341,930	384,630
Fiat India Ltd.	Uno Dsl ACPS	1697	419,076	461,309
Fiat India Ltd.	Uno Jubilee (Ptrl)	1697	363,700	384,656
Fiat India Ltd.	Uno Jubilee (Dsl)	1697	441,820	466,889
Hyundai	Santro L2	999	322,319	358,101
Hyundai	Santro GLS1	999	373,067	415,871
Hyundai	Santro GLS2	999	393,367	439,021
Maruti	800Std	796	-	239,043
Maruti	800-EX	796	-	263,534
Maruti	800-DX	796	-	293,867
Maruti	Zen LX	993	304,617	358,626
Maruti	Zen VX	993	356,555	418,101
Maruti	Zen Vxi	993	-	439,796
Maruti	Zen Vxi mpfi	993	-	463,526
Maruti	Zen AT	993	438,160	509,572
Maruti	Zen Classic	993	-	439,656
Maruti	Zen Diesel	1527	437,611	443,162
Telco	Indica Ptrl Std	1400	268,770	290,254
Telco	Telco Indica Dsl Std	1405	294,690	319,575
Telco	Telco Indica Dsl AC	1405	304,777	330,797
Telco	Telco Indica Dsl DLX	1405	401,038	437,735

Figure 7.2: Competitor Matrix (Big Cars)

Make	Model	Engine capacity cc	Approx. Price on Road (RS)	
			Delhi	Mumbai
DCM Daewoo	Cielo Executive	1498	562,146	646,733
DCM Daewoo	Nexia	1498	683,820	785,424
Fiat India Ltd.	Siena ELX PS	1242	601,346	656,473
Fiat India Ltd.	Siena ELX SP PS	1242	NA	729,529
Fiat India Ltd.	Siena EL PS	1697	642,210	705,438
Fiat India Ltd.	Siena ELX PS	1697	698,047	761,990
Fiat India Ltd.	Siena ELX PS SP	1697	NA	835,046
Ford	Ikon 1.6Clxi	1597	-	589,735
Ford	Ikon 1.6Clxi PS	1597	-	615,304
Ford	Ikon 1.6Zxi	1597	-	674,790
Ford	Ikon 1.8Zxi	1753	-	763,264
General Motors	Opel Astra Metro	1598	714,798	796,414
General Motors	Opel Astra Club	1598	901,414	1,013,807
General Motors	Opel Astra AT	1598	862,679	971,384
General Motors	Opel Astra Club DI	1700	-	1,113,298
Honda SIEL	City 1.3LXI	1343	-	728,646
Honda SIEL	City 1.3EXI	1343	-	812,237
Honda SIEL	City 1.5EXI	1492	-	907,580
Honda SIEL	City 1.5EXI AT	1492	-	977,027
Hyundai	GLE 1	1495	NA	627,739
Hyundai	Santro GLE 2	1495	NA	657,122
Hyundai	Santro GLS	1495	NA	686,489
Maruti	Baleno	1590	NA	812,318
Maruti	1000 (non AC)	970	360,762	421,909
Maruti	1000 (AC)	970	416,134	485,243
Maruti	Esteem LX	1298	487,894	567,400
Maruti	Esteem VX PS	1298	555,400	644,600
Maruti	Maruti Esteem AX AT	1298	616,019	713,974
Mitsubishi	Lancer GLXI (Ptrl)	1468	756,000	872,264
Mitsubishi	Lancer GLXd (Dsl)	1998	858,147	982,880
Mercedes Benz	E200 (Petrol) MT	1998	2,386,216	2,402,891
Mercedes Benz	E230(Petrol) MT	2295	2,686,024	2,705,946
Mercedes Benz	E250 (Diesel) MT	2497	2,586,228	2,605,327

bit and are costlier in Mumbai than in Delhi. It has to be kept in mind that residents in the former are among the most affluent and have among the highest standard of living in India.

From the competitor matrix we can see that for:

(i) Small Cars:

Maruti Udyog Ltd offers the maximum number of models (10) in that segment, followed by Fiat India with 5. The price of the small car models range from RS268,770 (approx. RM23,430) for Telco's Indica Ptrl Std. (1400cc) to RS441,820 (approx.RM38,520) for a Fiat Uno Jubilee (Dsl) (1697cc) in Delhi and RS239,043 (approx. RM20,841) for the Maruti 800Std (796cc) to RS509,572 (approx., RM44,426) for a Maruti Zen AT (993cc) in Mumbai. If Perodua decides to go in, Kancil will fall into this segment and as such the competition is quite high. If Perodua can sell the automobiles at the prices comparable to that in Malaysia, it would be quite competitive. Fiat cars have the highest engine capacity but corresponding prices are quite low. Expectations of the small car owners are a bit different from the big car owners as illustrated in the analysis of customer preferences. I believe that it is important to get a big slice of the market share and as such Perodua may have to do a competitive pricing. Besides this it has to compete on reliability, design and after sales service.

(ii) **Big Cars:**

These include the mid-cars as well as the luxury cars. In this segment too, Maruti Udyog Ltd offers the maximum number of models (6) followed by Fiat India with 5. The cheapest model is the Maruti 1000 (non-AC) with 970cc engine at RS360,762 (approx. RM31,453) (Delhi)/ RS421,909 (approx. RM36,784 (Mumbai). The costliest model in both cities is the Mercedes Benz E230 (Petrol) MT with 2295cc engine at RS2,686,024 (approx. 234,178) (Delhi)/RS2,705,946 (approx. RM235,915) (Mumbai). Proton cars will have to compete in this segment. Marketing abroad would incur additional expenses such as tariffs, transport, insurance and taxes. Looking at engine capacity and prices of the models, Proton can be quite competitive if it is able to sale its cars at prices similar to that in UK and Australia. I feel that increasing market

share is very important in the entry period. As most of the buyers of the big cars are more affluent and have highly brand awareness, Proton needs to have an aggressive marketing campaign.

5.6.3 THREAT OF SUBSTITUTES

Automobiles have many substitutes, which can satisfy the same need that is to transport people from one place to another. The car manufacturers have to face the fact that only a small portion of the huge Indian population can afford to buy a car. For many Indians, buying a car is often a dream and for those who do so, is not a repeat purchase item as in other developed countries. So this threat was rated quite high in the Indian context.

The substitutes include the 4 wheel drives, vans, public and private transport operators. The threat from Public transport is not that high as they are not very reliable. The greatest threat is from the two wheelers- scooters and motor bikes. They are the best mode of transport in cities with narrow and bad roads and also to avoid traffic jams. But the most important factor is that they are affordable to buy and maintain. The threat of substitutes will decrease as the economy improves and number of people aspiring to own a car increases and also if quality of public transport does not improve.

5.6.4 BARGAINING POWER OF BUYERS

Ever since the Indian car industry was opened up and foreign companies allowed in, it has transformed from a sellers market to a buyers market. In other words the bargaining power of customers have increased. This will necessitate increased selling efforts and after sales service. The sources of info about cars include dealers, past owners, trade magazines and now the Internet. Another source now a days are Motor Shows, the most famous being the Indian Auto Expo. The biggest auto show in Asia, the 5th **Auto Expo** was held in New Delhi recently with local as well as international companies showcasing their model offerings. Sad to say, Proton was nowhere in sight.

There is also a rising awareness among consumers, facilitated by the enactment of over 30 consumer- friendly legislation and the emergence of many active consumer associations. The **Consumer Protection Act of 1986** was passed to provide legal support to the aggrieved Indian consumer and promote a strong and broad-based consumer movement in the country. There are an estimated 500 voluntary organizations performing consumer protection-related work in the country. Consumer opinions about cars are eventually reflected in sales figures. According to the 1998 JD Power report, the **top problems encountered** in Indian cars were:

(i) Excessive fuel consumption; As mentioned before Indian customers are very price sensitive and fuel economy is of concern to them considering the high prices of petrol in India. Cars advertised as economical in terms of fuel consumption do well in India. The rest of the problem factors are due to design and engineering faults.
(ii) Hard to open/close (doors/trunks);
(iii) Noisy brakes;
(iv) Gaps/Poor fit;
(v) Manual transmission hard to operate;
(vi) Ride problem; This is an issue for Proton to consider as it has been critisised for poor suspension problems elsewhere and keeping in mind the poor Indian road conditions too.
(vii) Wind noise problems;
(viii) Seat problems;
(ix) Door lock problem; and
(x) Seat adjustment problem

The **features** that Indian customers like most are different for small and mid-sized cars. Only "Engine and transmission performance" was rated top in both cases. Owners of small cars rated "Vehicle styling/ exterior" and "Comfort and convenience" as second and third respectively, in terms of most liked features. Whereas the owners of Mid-sized cars ranked the "heating ventilation and cooling," second and "Ride and handling" third most liked features in their cars. The top Small Indian cars voted by customers in terms

of best features are (i) Fiat Uno; (ii) Maruti Zen and (iii) Maruti 800. As for Mid Size cars: (i) Honda city; (ii) Ford Escort; and (iii) Opel Astra.

5.6.5 BARGAINING POWER OF SUPPLIERS

High quality raw materials and components such as Spark plugs, Carburetors, Lights, Clutch, Brakes, Engine blocks, Pistons, Piston rings are available locally. Some of the components which are not available locally, such as fuel injection systems and electronic transmission for automatic transmission systems, may have to be imported till the Indian companies set up dedicated lines of production to meet the Malaysian car design requirements. Most auto parts companies are situated in Madras (South India), Pune (West India) and Delhi (North India) and many are already suppliers for the major car manufacturers such as GM, Mercedes, etc., through buying agreements with auto parts manufacturers.

Raw material costs can be kept to the minimum because for most component parts, the auto manufacturer has a higher bargaining power. Certain products like Carburetors and Spark plugs are the exception, where there is only one manufacturer in India, viz., Ucal Fuel Systems Ltd. and MICO respectively. Most of the foreign car companies like General Motors and Ford prefer original suppliers to local suppliers but as original suppliers found it uneconomical because of the small volumes involved, many of the companies have started to source components from local manufacturers (Business Times, 1999c). Besides this, the competition among the suppliers is quite high. This is reflected in the fact that original equipment prices tend to be lower than replacement market prices. This is good news for the Auto manufacturers.

5.7 PRODUCT

The companies have to consider making certain modifications to their models to suit the Indian conditions before entering India. It is better to go in with the accepted products. These include:

5.7.1 BODY SIZE

The number of models in the small car segment is less than that of models in the big car segment. This is quite surprising considering that sales of small cars currently is more than big cars and account for 73% of the car market which is related to price sensitivity of the Indian consumer. This is good news for Perodua and which Proton should think about. The market for mid sized and big cars is small considering the number of competitors. Indian consumers also like cars with big boot space; therefore, sedans should be the choice for introduction.

5.7.2 DIESEL VS PETROL MODELS

Many of the foreign companies have introduced diesel models to supplement their petrol range. This is because, in India, diesel prices are less than half the price of petrol. The differences between the price of diesel and petrol are expected to continue in the foreseeable future. Never the less, I believe that an economical petrol engine car will be the preferred alternative as is proven by the fact that Maruti Suzuki has no diesel vehicle in its range but still continues to be the largest selling car manufacturer in India.

5.7.3 PRODUCT LIFE

In developed countries and even in Malaysia, people on an average change cars once in 6 or 7 years. In India, however, cars are seen as a long term investment and are expected to last well over 12 years at least. Cars have to be durable to be able to withstand the poor road conditions over that time frame. At present, models do not have to be changed often. I believe that product life cycles will shorten as foreign manufacturers enter the market and may reach those of the more developed countries in the future.

5.7.4 OTHER MODIFICATIONS

- Ensuring that body parts and engines fulfill the Indian standards requirements especially the EURO II standards.
- Logo and design may have to be modified in order to suit Indian conditions.
- Certain minor changes to body detail like foldable mirrors, higher clearing height, etc. According to Vareesh Malik (Malik, 2000), cars should have a safe clearing height of at least 20 cm above the ground but it also depends on things like overhang and differentials between empty and light conditions. Cars with low profile, like Satria, will face problems in maneuvering on bumpy and pot holed roads of India.

5.8 MODE OF ENTRY

From my study, I found that the most common and the safest method of entry into the Indian car market is through a **joint ventures**. In fact, the biggest car manufacturer is Maruti Udyog Ltd., a joint venture between the Indian Government and the Japanese car company, Suzuki. There are several advantages of a joint venture, which the two companies should consider, namely:

- A stronger financial position as compared to going in alone;
- Taking advantage of established distribution network;
- Access to labor force;
- Being perceived as an Indian company; and
- Access to established raw materials and components suppliers.

Proton has made a good choice in Hindustan Motors as its partner but it has to be careful and keep risks in mind. Almost all the foreign car companies bring in their models as CKDs and assemble them there. Proton is planning to do the same. In fact, I was observed that the most successful car companies in India are those involved in manufacturing rather than just assembling here. This is due economy of scale and an increase in local content.

On the other hand, there are a few risks of entering as a joint venture too. these include:

- **Fear of Cannibalization.** The Indian car company may decide to come out with their own models with technology gained from the partnership. There must be clauses in the contract to prevent this.
- **Lack of commitment to the joint venture.** The partner may not focus the attention that is required to the new project. Sometimes it is best to avoid leaving the marketing in the hands of your partner.
- **Resistance to change.** As the work cultures are quite different, there might be some conflict the beginning. The Indian partner and the workers may be resistant to change and resist the adoption new production methods.
- **Fight for control.** The Indian Company may start pressing for a higher stake in the future to exercise greater management control in the top of the management hierarchy.