

Business Management in Today's Network World: Challenges & Opportunities in Automobile Industrial Sector in India

Amita Bhimrao Sarwade

Research Scholar

Department of Management Science

Dr. Babasaheb Ambedkar Marathwada University

Aurangabad, Maharashtra, India

Abstract

The Indian auto industry is one of the largest in the world. The industry accounts for 7.1 percent of the country's Gross Domestic Product (GDP). The Two Wheelers segment with 81 percent market share is the leader of the Indian Automobile market owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 13 per cent market share. India is also a prominent auto exporter and has strong export growth expectations for the near future. In April-March 2016, overall automobile exports grew by 1.91 %. PV, Commercial Vehicles, and Two Wheelers (2W) registered a growth of 5.24 per cent, 16.97 per cent, and 0.97 per cent respectively in April-March 2016 over April-March 2015. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the 2W and Four Wheeler (4W) market in the world by 2020. In order to keep up with the growing demand, several auto makers have started investing heavily in various segments of the industry during the last few months. The industry has attracted Foreign Direct Investment (FDI) worth Rs. 9817500000 Trillion during the period April 2000 to September 2016, according to data released by Department of Industrial Policy and Promotion (DIPP). Business management in automobile sector is very wide in fact there are some lacunas also.

Keywords

Business Management, Automobile Industry, Opportunists in Automobile Industry, Challenge in Automobile Industry.

Introduction

The automotive industry in India is one of the largest in the world with an annual production of 23.96 million vehicles in FY (fiscal year) 2015–16, following a growth of 2.57 percent over the last year. The automobile industry accounts for 7.1 percent of the country's gross domestic product (GDP). The Two Wheelers segment, with 81 percent market share, is the leader of the Indian Automobile market, owing to a growing middle class and a young population. Moreover, the growing interest of companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 13 percent market share.

Some of the major investments and developments in the automobile sector in India are as follows:

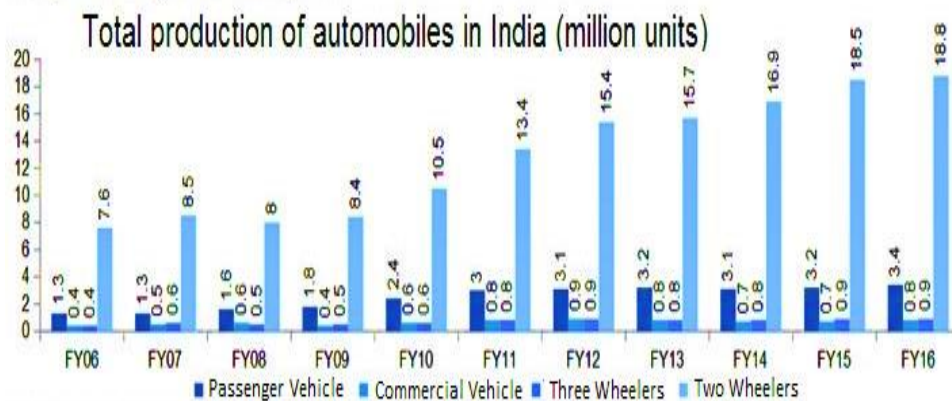
- Electric car maker Tesla Inc. is likely to introduce its products in India sometime in the summer of 2017.
- South Korea's Kia Motors Corp is close to finalising a site for its first factory in India, slated to attract US\$1 billion (Rs 6,700 crore) of investment. It is deciding between Andhra Pradesh and Maharashtra. The target for operationalizing the factory is the end of 2018 or early 2019.
- Several automobile manufacturers, from global majors such as Audi to Indian companies such as Maruti Suzuki and Mahindra & Mahindra, are exploring the possibilities of introducing driverless self-driven cars for India.
- BMW plans to manufacture a local version of below-500 CC motorcycle, the G310R, in TVS Motor's Hosur plant in Tamil Nadu, for Indian markets.
- Honda Motorcycle and Scooter India (HMSI) has inaugurated its 900th Honda Authorised Exclusive Dealership in India, thereby taking its total dealership network to 4,800 across the country and further plans to increase its network to 5,300 by end of 2016-17.
- Hero MotoCorp Ltd. seeks to enhance its participation in the Indian electric vehicle (EV) space by pursuing its internal EV Programme in addition to investing Rs 205 crore (US\$ 30.75 million) to acquire around 26-30 percent stake in Bengaluru-based technology start-up Ather Energy Pvt Ltd.

- JustRide, a self-drive car rental firm, has raised US\$ 3 million in a bridge round of funding led by a group of global investors and a trio of Y Combinator partners, which will be utilised to amplify JustRide's car sharing platform JustConnect and Yabber, an internet of things (IoT) device for cars that is based on the company's smart vehicle technology (SVT).
- Ford Motor Co. plans to invest Rs 1,300 crore (US\$ 195 million) to build a global technology and business centre in Chennai, which will be designed as a hub for product development, mobility solutions and business services for India and other markets.
- Cummins has plans to make India an export hub for the world, by investing in top components and technologies in India.
- Suzuki Motor Corporation, the Japan-based automobile manufacturer, plans to invest Rs 2,600 crore (US\$ 390 million) for setting up its second assembly plant in India and an engine and transmission unit in Mehsana, Gujarat.
- Mr Masayoshi Son, Chief Executive Officer, SoftBank Group, has stated that Ola Cabs may introduce a fleet of one million electric cars in partnership with an electric vehicle maker and the Government of India, which could help reduce pollution and thereby transform the electric mobility sector in the country.
- China's biggest automobile manufacturer, SAIC Motor, plans to invest US\$ 1 billion in India by 2018, and is exploring possibilities to set up manufacturing unit in one of three states – Maharashtra, Andhra Pradesh and Tamil Nadu.
- Suzuki Motorcycle India Pvt Ltd has started exports of made-in-India flagship bike Gixxer to its home country of Japan, which will be in addition to current exports to countries in Latin America and surrounding countries.
- General Motors plans to invest US\$ 1 billion in India by 2020, mainly to increase the capacity at the Talegaon plant in Maharashtra from 130,000 units a year to 220,000 by 2025.

- FIAT Chrysler Automobiles has recently invested US\$280 million in its Ranjangaon plant to locally manufacture Jeep Compass, its new compact SUV which will be launched in India in August 2017.
- According to Business management there are lots of opportunities and challenge in Industrial sector in India.

Total Production of Automobiles in India

Production of automobiles increased at a CAGR of 9.4 percent over FY06-16. During FY06-16, passenger vehicle segment witnessed the fastest growth, at a CAGR of 10.09 percent, followed by two wheeler segment, which grew at a CAGR of 9.48 percent during the same time period.



Source: SIAM, TechSci Research; Note: CAGR – Compound Annual Growth Rate

The Indian automotive industry has emerged stronger from the recent global downturn and sales across all segments have seen record-breaking numbers in recent past. While the Indian industry much look forward to, by way of steady growth in both domestic and export market, there are some clear challenges accompanying the opportunities in greener vehicles and alternative mobility in order to capitalize on those opportunities the industry needs develop and accurate technology and capabilities to produce vehicles that meet future market need. The government for its part has much to do ensure the growth trends are maintained and encourage the development of greener vehicles, while also improving compliance to even existing environmental standard. Demographically and economically, India's automotive industry is well-positioned for growth, servicing both domestic demand and, increasingly, export opportunities. A predicted increase in India's working-age population is likely to help stimulate the burgeoning market for private vehicles. Rising prosperity, easier access to finance and increasing affordability is expected to see four-wheelers gaining volumes,

although two wheelers will remain the primary choice for the majority of purchasers, buoyed by greater appetite from rural areas, the youth market and women.

Domestically, some consolidation or alliances might be expected, driven by the need for access to better technology, manufacturing facilities, service and distribution networks. The components sector is in a strong position to cash-in on India's cost-effectiveness, profitability and globally-recognized engineering capabilities. As the benefits of collaborations become more apparent, super-specialists may emerge in which the automobile is treated as a system, with each specialist focusing on a sub-system, akin to the IT industry. Though this approach is radical, it could prove an important step in reducing complexity and investment requirements, while promoting standardization and meeting customer demands. Manufacturers are already planning for the future: early advocates of technological and distribution alliances have yielded generally positive results, enabling domestic OEMs to access global technology and experience, and permitting them to grow their ranges with fewer financial risks. This exciting outlook for the industry is set against a backdrop of two potentially game-changing transportation trends – the gradual legislative move towards greener, gas-based public transport vehicles, and a greater requirement for urban mass mobility schemes to service rapidly-expanding cities.

Objectives of the Studies

1. To study the present scenario of automobile industry in Indian & International Market.
2. To study opportunities and challenge in Automobile Industry in India.
3. To find out the benefits of adopting business management and Technology in Automobile industry.

Research Methodology

Data is based on 2006 to 2016

Secondary data available on books, survey, Industrial survey, News-papers, Annual reports, Websites.

Literature Review

T.P. Rajmohan says in his Book Indian Automobile Industry - An Introduction The automobile industry is one of the largest industries in India as in many other countries. It plays a major role in the growth of economy in

India. The industry comprises automobiles and auto component sectors, which encompass passenger cars, two-wheelers, three-wheelers, tractors, commercial vehicles, multi-utility vehicles and components. Today, The Indian automobile industry is the world's largest motorcycle manufacturer, the second largest two-wheeler and tractor manufacturer, the fifth largest commercial vehicle manufacturer and the fourth largest car maker in Asia. Apart from serving the domestic market, the Indian auto sector has also become a sourcing hub for the global auto giants. The Government of India has introduced an ambitious project of setting up world-class automotive testing and R&D infrastructure to place India in the USD 6 trillion global automotive business. This book details the current status and factors influencing the growth of the Indian automobile industry; its future prospects and the success stories of some automobile giants in India. It also focuses on the future growth of the industry as a result of the newly adopted technologies and strategies.

Opportunities of Automobile Industry in India

By 2026, India is expected to be the third largest automotive market by volume in the world. Tractor sales in the country are expected to grow at Compound Annual Growth Rate (CAGR) of 8-9% in the next five years, enhancing India's market potential for international brands. Two-wheeler production has grown from 8.5 million units annually to 15.9 million units in the last seven years. Significant opportunities exist in rural markets. The emergence of large automotive clusters in the country: Delhi-Gurgaon-Faridabad in the North, Mumbai-Pune-Nasik-Aurangabad in the West, Chennai- Bengaluru-Hosur in the South and Jamshedpur-Kolkata in the East. Global car majors have been ramping up investments in India to cater to growing domestic demand. These manufacturers plan to leverage India's competitive advantage to set up export-oriented production hubs. An Research & Development (R&D) hub: strong support from the government in the setting up of National Automotive Testing and R&D Infrastructure Project (NATRiP) centres. Private players such as Hyundai, Suzuki, GM are keen to set up an R&D base in India.

Domestic Market Share: 2015-16

Passenger Vehicles 14%, Commercial Vehicles 3%, Three-wheelers 3%, Two-wheelers 80%

The automotive industry accounts for 45% of the country's manufacturing gross domestic product (GDP), 7.1 % of the country's GDP and employs about 19 million people both directly and indirectly. India is currently the sixth largest producer in the world with an average annual production of 24 million vehicles, of which 3.64 million are exported. India is the second largest two-wheeler manufacturer, the largest motorcycle manufacturer and the fifth largest commercial vehicle manufacturer in the world. Passenger vehicle production is expected to grow to 9.4 million units annually by 2026 Commercial vehicles production is expected to grow to 2.0 million units annually by 2026 Two wheelers production is expected to grow to 50.6 million units annually by 2026 Three wheelers production is expected to increase to 0.95 million units by 2026 A growing working population and an expanding middle-class are expected to remain key demand drivers. GDP per capita has grown from USD 1,432.25 in 2010 to USD 1,500.76 in 2012, and is expected to reach USD 1,869.34 by 2018. India has the world's 12th largest number of high-net-worth individuals, with a growth of 20.8%, the highest among the top 12 countries. Increasing disposable incomes in the rural agri-sector. The presence of a large pool of skilled and semi-skilled workers and a strong educational system.

Favourable government policies like lower excise duties, automotive mission plans, the constitution of NEMMP (National Electric Mobility Mission Plan 2020), FAME (Faster Adoption and Manufacturing of Hybrid Land Electric Vehicle)

FDI Policy

100% Foreign Direct Investment (FDI) is allowed under the automatic route in the auto sector, subject to all the applicable regulations and laws.

Auto Policy

Automatic approval for foreign equity investment up to 100% with no minimum investment criteria. Manufacturing and imports in this sector are exempt from licensing and approvals. The encouragement of R&D by offering rebates on R&D expenditure.

Automotive Mission Plan 2016-26:

Salient points of AMP-2026 are

- The Indian Automotive industry to be a top job creator – 65 million additional jobs.
- The Indian Automotive industry to be one of the prime movers of Manufacturing sector and “Make in India” initiative.
- The Indian Automotive industry aims to increase exports of vehicles by 5 times and components by 7.5 times.
- Specific interventions are envisaged to sustain and improve manufacturing competitiveness and to address challenges of environment and safety.
- National Automotive Testing & R&D Infrastructure Project (NATRiP): The project has been set up at a total cost of USD 585 million to enable the industry to adopt and implement global performance standards. Focus on providing low-cost manufacturing and product development solutions.

The National Electric Mobility Mission Plan 2020 (NEMMP)

The objective of this body is to encourage reliable, affordable and efficient xEVs (hybrid and electric vehicles) that meet consumer performance and price expectations through government-industry collaboration. Promotion and development of indigenous manufacturing capabilities, required infrastructure, consumer awareness and technology are additional objectives of NEMMP 2020.

India to emerge as a leader in the two-wheeler and four-wheeler xEV market in the world by 2020, with total xEV sales of 6-7 million units thus enabling the Indian automotive industry to achieve global xEV manufacturing leadership and contributing towards national fuel security. Target of putting 6 million electric & hybrid vehicles per year on the road by 2020 under NEMMP 2020. A pilot scheme for the initial period of two years in the name of Faster Adoption & Manufacturing of hybrid and electric vehicles, implemented from 1st April 2015 for the initial period of two years. It will cover all vehicle segments i.e. two-three- and four-wheelers, cars, LCVs, buses etc. and all forms of hybrid (Mild/Strong/Plug-in) and pure electric vehicles. It also seeks to provide demand incentives to electric and hybrid vehicles from two-wheeler to buses.

Pilot Electric Vehicle Projects

The Department of Heavy Industry (DHI) is launching pilot projects on electric vehicles in various metros and cities all across the country under the NEMMP 2020 with a dual purpose - demonstrating and disseminating the benefits of adopting cleaner, greener modes of transportation as also to explore the viable operational modalities. The DHI will provide viability gap funding through subvention to support the extra cost of acquisition and operation of these vehicles by state governments or designated bodies. In the first phase, a pilot project to provide last mile connectivity to the through electric passenger vehicles will be promoted. All the other states have been brought on board and different states have already appointed nodal officers to co-ordinate with DHI and vehicle manufacturers for the implementation of those pilot projects. The uptake of electric vehicles will depend in large part on the adequate deployment of Electric Vehicle Supply Equipment (EVSE) needed to recharge electric vehicles.

Challenges in Automobile Industry

As we move into the new millennium, the Indian Automobile Industry faces some tremendous opportunities and also great challenges. The growth in automobile sales has been impressive for the past ten years since liberalization began. However, with liberalization, the Indian customer has been presented with a wide range of choices in automobiles, to suit every requirement and budget. The market has turned into a buyer's market where the customer is being wooed by the manufacturers and the dealers with a range of freebies unheard of before in India. Financing has become so easy that an automobile is within every aspirant's reach. Competition has meant that manufacturers' margins have been squeezed severely and they are all under pressure to cut costs to be profitable and competitive. Some of the older manufacturers like Premier Automobiles (manufacturers of Premier cars), Automobile products of India (manufacturers of Lambretta scooters) and Ideal Jawa (manufacturers of Jawa and Yezdi motorcycles) have closed shop. Hindustan Motors (manufacturers of Ambassador and Contessa cars) is in trouble due to the declining sales of its car's, as most customers prefer the newer models available in the market. Even the dominant player Maruti has seen its market share decline rapidly due to its models being old and jaded and is in addition facing labour problems in its plant. To add to the problems, come April 2001, under the WTO agreement, India will have to

permit import of fully built automobiles, which hitherto was not permitted. The foreign manufacturers such as GM, Ford and Daimler Chrysler will almost certainly import vehicles from their large portfolio of models and makes, further segmenting the market into niches, although how competitive they are in terms of price remains to be seen. The challenge before the industry is to figure out the strategy for survival and growth. It is clear from the picture painted above that the industry will have to increase volumes in each segment to achieve lower cost of manufacture. One way to achieve this will be to go for exports in a big way. Maruti is already exporting vehicles, as are Mahindra, Telco, Daimler Chrysler and more recently Daewoo. The overseas markets will have to be exploited more aggressively, but this will mean the companies will have to invest more in Research and Development of new models with better features to become contract manufacturers for overseas companies. A number of Japanese and Korean companies have been following this strategy very successfully. Hindustan Motors is said to be considering this option to overcome the vulnerability of the automobile market to oil prices by designing vehicles, which can offer lower fuel consumption. Recent reports suggest the government is exploring the possibility of introducing Gasohol, which is a mixture of Petrol and Alcohol. Gasohol has been very successful in Brazil. Since Alcohol is a by-product of the Sugar industry of which India has the worlds largest, this is a very logical step that should have been taken many years ago. Even a small percentage reduction in the consumption of petroleum per vehicle can make a big difference to the balance of payments. The industry must focus its R&D efforts in line with the global trends, which is to build vehicles that are considerably more fuel efficient and less polluting. With growing awareness among the public about pollution and the effective campaigns carried out by the NGO's, this will increasingly become an important selling feature. It was surprising to see how the industry kept stalling the introduction of pollution norms for vehicles on the pretext that they needed more time to get the technology. Even Maruti despite its foreign affiliation was caught off guard when the Supreme Court finally ruled that all new vehicles should strictly adhere to the Euro II norms. The inadequacy of road infrastructure in India is well known. This is compounded by the fact that traffic management is very poor or non-existent and the drivers are mostly ill trained and indisciplined. As more vehicles come on the road, this will become a major bottleneck. The industry will need take initiatives firstly to train all drivers

in safe driving and proper road discipline and manners. They will also need to assist government agencies in better road design and in building of multilevel parking lots. Training of police personnel in better traffic management and advising them on better equipping themselves to deal with various problems will also have to be done. In terms of the world averages, India's vehicle density is very low and if we have to achieve those density levels, the industry can look forward to a bright future. However, in the industry's interest care must be taken to see that we also achieve the safety and convenience levels of using automobiles.

Conclusion

The Indian automotive industry, although growing rapidly, is in a state of flux. The production capacities planned by the new joint ventures currently exceed most projections, and unless import tariffs come down quickly and the economy grows remarkably, a shake-out may be expected from the current 20 firms to about half a dozen major firms turning out finished products by the end of the decade. However, if multi-national firms decide to use India as a production base from which today tough challenges in automotive industry require finding in new 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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