

## **Revving up for Uncertainties and Changing Paradigm**

Auto industry and retail trade need to gear for the uncertain times and changes that are becoming the order of the day in the fast changing automotive landscape, for survival and sustained & enduring growth. In his address as the Chief Guest at the 45<sup>th</sup> Annual Session of Federation of Automobile Dealers Associations held on 27<sup>th</sup> August 2009 at New Delhi, Dr Pawan Goenka, Incoming President, SIAM and President, Mahindra & Mahindra (Automotive Sector) said that India, among very few countries, has been fortunate to withstand the recessionary trends being witnessed across the world. However, Indian auto industry and retail would have to guard against complacency and be prepared for the uncertainties and inevitable changes, which will be the flavour of times to come and cannot be wished away. A changing world order is witnessing emergence of China and India as the new manufacturing hubs and automobile markets.

Dwelling on the changes that are inevitable, Dr Goenka said that ever changing customer needs, growing concern for environment & safety, and advent of new technologies make it imperative for auto industry and retail to constantly upgrade and attune their business models accordingly. Customer driven changes would lead to shorter ownership cycle, more variety and increasing customisation. 'One-size fits all' does not hold good in today's context. Accordingly, automobile industry and dealers would have to change their business models to pay greater attention to customisation. With customers becoming more choosy and demanding, product portfolio would need to be expanded necessitating frequent introduction of new models, variants and upgrades suiting the changing needs of customers. Customer centricity would be the key differentiating factor. Auto industry and retail would also have to rev up for the challenges of penetration and intense competition. In other words, while traditional stream of revenues would shrink or dry up, new opportunities such as pre-owned vehicle business and unexplored markets in small towns and countryside would have to be tapped. Similarly, environment & technology driven changes would necessitate the increasing use of internet as a marketing tool by manufacturers and dealers, on one hand, and upgradation of vehicles loaded with more electronic content and environment friendly & safety features such as OBD, ABS and airbags, on the other. Environmental concerns would also catalyse the development of alternative energy driven vehicles including hybrids, electric vehicles and fuel cell driven vehicles, which are likely to find their space in the market.

Touching upon the other inevitable changes in Dealership Business Model, Dr Goenka envisaged multi-brand showrooms and more likely multi-brand service stations emerging in a big way because of convenience of location offered by them.

Mayank Pareek, Executive officer (Marketing & Sales), Maruti Suzuki speaking on the occasion said that of the major challenges confronting the automobile dealers are: (i) Increased Customer Expectations; (ii) Increased Competition; (iii) Availability of Quality Manpower / Retention; (iv) Pressure on Margins; and (v) Access to Capital. He revealed that dealer's viability and profitability is a focussed activity for Maruti Suzuki, for which a separate group headed by a General Manager has been created. The group guides the dealers to better financial health, helps in growth and target achievement and enables the

dealers to plan for the future and be one step ahead. The monitoring is done through three tools, viz. (i) 'Balanced Score Card (BSC)'; (ii) 'Dealer Business Performance (DBP)'; and (iii) 'Dealer Profitability Module (DPM)', which have been developed by Maruti Suzuki for Dealer Business Development. While the aim of BSC is to put Enablers in place, DBP reviews the past financials of a dealership. DPM is a projection tool that enables dealer know the potential of his business in financial terms, translates sales/service numbers into financial figures, and forecasts all variables that determine the profitability of the dealership. He exhorted automobile dealers to inculcate corporate way of working and planning and to strengthen their balance sheets.

Anil Dua, Sr Vice-President (Marketing & Sales), Hero Honda, pointed out that although the year 2008-09 was a year of doom and gloom, there were a number of companies like Apple, Bharti, Mundra Port, Mazda and Hero Honda, to name a few, who turned up winners in this period of severe recession through their focus on customer satisfaction, which is a learning for all of us in automotive business. He felt that the business has to move beyond customer satisfaction to excellence in customer experience right from product to pre-sales, sales, post-sales and brand experience. Excellence can be achieved only when the customer experience exceeds his expectation. For that to happen, engagement and exuberance are prerequisites. Referring to the emerging scenario, Dua painted a bright outlook for the auto market in short and long terms, with a caution that deficient monsoon may play spoilsport to some extent in the second half of the current financial year.

Dr Rajesh Shukla, Sr Fellow and Chief Statistician, NCAER (National Council of Applied Economic Research), in his presentation on *Dynamics of Indian Consumer Market*, pointed out that the middle class population in the income bracket 2-10 lakhs has increased from 58 million in 2001-02 to 126 million in the year 2007-08. Underling the importance of middle class for marketers of consumer goods and durables, Dr Shukla said that though the middle class constitutes 7.3% of the total households in the country, they account for 49% of the car sales. Highlighting that there is an unequal distribution of income & wealth therefore an unequal purchasing power of population in the country, he said top 20 per cent of the Indian consumers account for half of the income (49.6%) of the country. It means that half of the income in the household sector belongs to top 20 per cent of the population. However, a single indicator cannot fully explain the consumer behaviour. For that one has to take a set of indicators together to better understand the consumer. Ownership pattern, occupation pattern and level of education are few other indicators to identify the consumer behaviour.

Location of customer (rural, urban or metropolitan city) is another determinant of identifying consumer behaviour. For example, as for contribution of agriculture and services in rural economy, NCAER has found that even in the rural economy agriculture's share has declined from 74 per cent in 1970 to 40 per cent in the year 2007-08 and is expected to decline to 32 per cent by 2012-13. It means that the drought may not make any significant impact on rural economy, even though it will have major social repercussions in terms of widening income gap.

Ashok Khanna, Sr Vice President, HDFC Bank, said in his presentation that the automobile industry has been widely hit due to ongoing recession across the world for

over a year now. However, signs of recovery are now emanating from around the globe. Governments across Europe, US and China have stepped in to bolster sales. Over 80% of car sales happen in Europe, US, Japan and China. BRIC will be the key auto markets, going forward. With wealth shifting from West to East, an opportunity beckons. Khanna also referred to the 'US Cash for Clunkers Program', which has been a welcome success and has positively impacted the sales. China continued its impressive growth, clocking whopping 70% growth y-o-y. Over 8.32 lakh cars were sold in July 09 as compared to 4.88 lakh cars in July 08. China has pipped US to become # 1 automobile market.

While finance has been the key driver of auto sales during the years 2000 - 2007, large scale defaults and delinquency coupled with populous measures adopted by some of the State governments making recovery difficult have made the banks and financiers risk averse and cautious in lending. He sought the support of auto industry and dealers in strengthening the recovery regime in order that the financiers come forward in a big way to finance vehicle purchases. With the advent of CIBIL in 2004 and many more international Information Bureaus setting up their shops shortly, rejection rate is likely to increase, he added.

Earlier in his welcome address, S P Shah, President, FADA said that Indian auto industry, by and large, scraped through unscathed, while there was an acute recession and crisis besetting the auto industry all over the world, thanks to stimulus packages announced by the Government on the representation of industry and trade. He complimented SIAM and industry for their efforts. He also complimented the Indian auto industry for making fuel-efficient cars that are being exported in large numbers and have found wide acceptance in Europe and other parts of the world. He attributed the growing exports of Indian small cars to Europe largely to the scrappage incentive schemes introduced by the US and many European countries under which the customers are given incentive if they trade in their fuel-guzzler cars for more fuel-efficient and environment friendly vehicles.

Shah suggested to the industry leaders to take up with the Government the introduction of similar incentive scheme in India too without waiting for business environment and market to turn bad.

Adverting to the growing menace of road accidents in India, FADA President said over 1 lakh people die and about 5 lakh people are crippled in road accidents during a year in India entailing huge social cost. As the auto industry is growing and vehicle population is growing by the day, it is the social obligation and responsibility of the manufacturers and the dealers to implement 'Safe Service'. All vehicles including personal vehicles must undergo periodic inspection and certification process as in the UK and other parts of developed world, as otherwise we would not be able to sustain the growth. Non-government players including automobile dealers would be more than willing to pitch in this task. Assuring unstinted support of automobile dealer fraternity in this endeavour, Shah wanted all stakeholders including the Government, the industry and the automobile dealers should join hands to work towards the twin objective of clean environment and safe motoring.

This document was created with Win2PDF available at <http://www.daneprairie.com>.  
The unregistered version of Win2PDF is for evaluation or non-commercial use only.