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Maruti's Quest for Being a Premium Car Brand of India Through Exclusive Dealership Chain – NEXA: A Case Study

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ABSTRACT

Maruti Suzuki India Ltd. (MSIL) previously known as Maruti Udyog Ltd. (MUL) (founded in 1983) has been an undisputed leader in Indian passenger car industry for more than three decades with every second car sold being a Maruti Suzuki. The success is even more remarkable given the fact that Indian car market is one of the most complex markets in the world; where many car giants have returned empty handed or are struggling to find a foothold. The carmaker played a key role in establishing India as a global hub for small cars and cemented itself as the pioneer brand of affordable and small cars around the world. Today MSIL has become synonymous with small, compact, affordable car for middle class.

In the last one and a half decades the increase in disposable income of Indian people led to a change in the market dynamics in the form of increased acceptance of premium car brands. There are many car companies like Hyundai, Toyota, Honda, and Volkswagen who came very late as compared to MSIL have also established themselves as credible brands in premium car segment. On the contrary, MSIL is still struggling to find its feet in that segment largely because of its image as a small and affordable carmaker. After series of failures in the form of Grand Vitara, Baleno, Kizashi to enter the premium car segment of Maruti Suzuki realized that it is very difficult to remove the tags like “cheap car” , “low cost car” , “car for common man” or “car for middle class people” from its brand “Maruti Suzuki”. So as a last resort, they decided to develop a separate brand altogether from scratch for premium cars segment. As a result, a new exclusive and more premium distribution channel called NEXA was created in the year 2015 and it was decided that all premium cars would be launched through NEXA. S Cross became the first car to come from NEXA. Four and half years later with five products and around 370 NEXA outlets, how effective this move is in bringing the desired exclusivity for NEXA? This case study tries to find answer to this question.

Keywords: Maruti Udyog Ltd., Maruti Suzuki India Ltd., Small Car Company, NEXA, Premium Buyer

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INTRODUCTION

Maruti Suzuki India Ltd. ever since its inception has been a dominating and most trusted car brand in India. It has maintained its leadership position in the highly competitive market post liberalized era also with market share of more than 50% most of the time. But even after having around 46% of market share in 2015 (The year when NEXA was launched) in a surprised move (or not so surprising) Maruti Suzuki India Ltd. (MSIL) decided to come out with a new exclusive dealership chain called NEXA to sell premium cars in India. The country's largest passenger car manufacturer having largest number of dealerships and service network went for another exclusive set of dealerships.

RESEARCH METHOD

Primary Objectives

- To know the reason why MSIL decided to launch exclusive dealership called NEXA even after having the largest sales and dealership network in India.
- To know how successful MSIL is in achieving its objectives with NEXA after four and half years of launching NEXA.

Secondary Objectives

- To understand the history of Indian automobile industry.
- To understand the journey of Maruti Suzuki in India
- To understand the concept of NEXA
- To know the reasons for failure of NEXA strategy if any.
- To suggest the roadmap for NEXA for future.

History of Automobile Industry in India

The Indian automobile industry has come a long way from once fully protected industry to today's highly liberalized one. The automobile manufacturing industry in India dates back to 1948. At that time there were literally two companies manufacturing passenger cars i.e., Premier Automobiles in Mumbai, and Hindustan Motors (HM) in Kolkata. The licence raj, red tapism and the unfriendly Indian economic policies ensured that no other automobile manufacturers entered the Indian market for next 30 odd years and as a result these two companies ruled Indian market even after producing only one model year after year without any major changes.

The scenario started to change in early 1980s when government of India intervened. In 1983, the government of India created a joint venture with Suzuki Motor Corporation of Japan to manufacture low-cost cars in India. The new entity called Maruti Udyog Ltd (MUL) was created. The Maruti 800 was the first car to come out of the factory of Maruti Udyog Ltd in December 1983. Since then, the journey of Maruti Suzuki has been very successful with launches like Gypsy, Maruti 1000,

Maruti Omni Van, WagonR, Swift, Swift Dezire etc. Maruti Suzuki not only changed India's automobile industry but also the way people commuted by providing an affordable travel option. This was an era of dominance of Maruti Suzuki Ltd.

Market once again saw a shift in 1991 when government of India through its liberalization initiatives opened its gates for other carmakers of the world with maximum of 49% FDI. In 1993, the government reduced the import duty on automobile components substantially and ultimately opened the automobile sector completely. Now foreign carmakers were allowed to bring upto 100% FDI. As a result, Indian car market was flooded with large number of carmakers of the world to take advantage of the newly developing car market. As a result, Indian customer not only had many options to choose from but actually many were even better than Maruti if one was willing to spend some extra bucks.

Today the Indian car market has a mix of domestic and foreign players like Tata Motors, Mahindra & Mahindra, Suzuki, Honda, Hyundai, Toyota, Nissan, Renault, General Motors, Ford, BMW, Audi, Mercedes, Volvo and many more across different segments. Even after presence of all these players, MSIL continues to dominate the Indian car market with handsome 48% market share.

Profile of Maruti Suzuki India Limited and Its Journey in India

Maruti Suzuki India Limited is a subsidiary of Suzuki Motor Corporation of Japan and has been the leader in Indian car market ever since its inception in 1983. It entered the Indian market when no foreign companies were willing to enter terming India a poor country with no opportunities for expensive products like car. When MSIL entered India it was a protected economy with selected private players only. Over a period of time, Indian market was liberalized and many foreign car makers entered but still MSIL sustained its leadership position and remained profitable.

Maruti Suzuki revolutionized the Indian car industry. It is given credit for modernization of Indian passenger car industry. It was the first company in India to mass produce and sell more than a million cars. In the year 1987, the company forayed into the foreign market by exporting first lot of 500 cars to Hungary. Over its 37 odd years of journey, Maruti Suzuki transformed itself from a successful Public Sector Company MUL to a listed Multi-National Company MSIL. Today MSIL is a wholly owned subsidiary of Suzuki Motors of Japan after GOI gave up its stake in the company. Today Maruti has about 48% market share in Indian car industry.

Why NEXA: The Exclusive Channel for Premium Cars

Though Maruti Suzuki is market leader for so many years, all this success was limited largely to economical car or compact car segment only. Since its inception it has failed to establish itself as a credible player in premium car segment largely due to its image as a car company for middle class customer. The image they developed by positioning their car as the most fuel efficient one through television commercial campaign like 'Kitna Deti Hai?'. This image helped Maruti to become market leader

in India; a country where majority of the customers are middle class who prefer mileage, low maintenance with low price, good resale value. In the process of satisfying middle class customer, Maruti distanced itself from upper end customer.

Maruti tried to enter this premium car segment multiple times with cars like Grand Vitara and Baleno (Not to be confused with recent Baleno hatchback) with premium features and premium pricing but it failed miserably every time. Both of them are regarded as biggest disaster in company's history. So, in a desperate attempt to remove this stigma of "Car Company for Middle Class Customer"; MSIL ambitiously launched its most premium car Maruti Suzuki Kizashi in February 2011 with a price tag of above Rs. 15 lakhs. But even after having impressive looks and good features still it failed so badly that within 18 months, it ended up with sales of just 10 units per month across India and as a result it also was withdrawn.

Why MSIL Has Failed to Find a Foot in Upper End Segment

The reasons are simple: Why anyone would spend 12- 15 lakhs to get a Maruti? Rather, any intelligent buyer would prefer to buy a Honda, Skoda or a Toyota which are definitely bigger brands than Maruti. The issue with Maruti is it lacks snob value necessary for luxury segments. The premium buyers who are paying higher price to buy a premium Car are not merely looking for a swanky car with high end features. Part of the price premium that they are paying is just to get associated with a premium brand like Honda, Toyota, BMW or Mercedes. Maruti is definitely not one of them. So even after having advanced set of features, buyers didn't accept Kizashi. Same happened with Grand Vitara and Baleno also.

Another issue was with the distribution channel. Maruti failed to provide the right kind of ambience for luxury car consumer. A premium sedan buyer expects to be treated exclusively. However, in the case of Maruti, a premium buyer has to visit the same Maruti showrooms that is flocked by consumers of compact and cheaper cars and is attended by the same personnel who handle customers of WagonR and Alto. Though Maruti's personnel were warm and nice but were not trained to deal with luxury car consumer. They lacked sophisticated and professional approach required to handle such customers. Maruti failed to understand that different class of customers require different treatment. As a result, many premium buyers just didn't visit the Maruti's showroom. The premium customers who are more interested in premiumness, exclusiveness, comfort and status found Maruti too massy to be exclusive and rejected it multiple times.

The Launch of NEXA

Realizing this Maruti came with a tried and tested idea of having exclusive dealership for premium buyers as a last recourse. It is an established practice globally in car industry to have different brand for different segments (refer table no.1) to maintain the desired exclusivity.

As a result, new dealership chain called NEXA was launched and it was decided that all future cars priced above 12 lakhs would be launched under NEXA brand and other regular economic models would come from its regular chain under Maruti Suzuki brand which was subsequently renamed as Maruti Suzuki Arena.

There were at least two reasons for Maruti's this desperate attempt to bring NEXA.

First. The low-priced segment which was Maruti's domain for years was getting crowded and becoming more and more competitive after liberalization. Many car companies like Toyota who had never made a small car were also making it for Indian market realizing that it is the most lucrative segment in India and entry gate for success in Indian market. Not only that some companies like Hyundai started creating serious threat to Maruti Suzuki in this segment.

Second. This problem was actually hurting Maruti Suzuki's ego. Many companies like Hyundai and Toyota, who actually came very late to Indian market, not only successfully established themselves as a credible brand in small and economical car segment but they actually made a big mark in upper end premium car segment also which even after being the oldest company in India Maruti was unable to do.

The repeated failure in finding feet in premium car segment with Maruti brand name coupled with intensive competition in compact car segment made Maruti to create a new brand (NEXA) to bring the desired differentiation and exclusivity.

Exclusive Dealership: Different Brand for Different Target Market (Industry Practice At Global Level)

Maruti's strategy is not something new rather it is a tried and tested strategy at global level. Brands like Toyota, Nissan, Honda, Volkswagen, and Fiat all make mainstream cars to masses. However, these brands want to sell higher-priced cars to the "luxury" market as well. You would imagine what's wrong with just making a huge car, filled with all the "luxury" touches such as leather, air suspension for a comfortable ride, cruise control and selling it at the price of a Mercedes S class? Volkswagen actually did this in 2002 with the Phaeton: It failed so miserably, that Volkswagen withdrew it from USA market in 2006 in just 4 years after its introduction. This is because rich people care a lot about Brand Image which Volkswagen was lacking. Most of these brands which make cars for masses are otherwise good car makers but lack the snob value, exclusivity, the premiumness which BMW, Audi and Mercedes are known for.

Car companies figured this out, and that's why almost all of them have a separate brand that sells to the higher-end market. Many companies like the Volkswagen have upto four - five different brands separately maintained understanding the different target market.

In order to expand to different segments (premium segment), brands make up new brands either by creating another brand (like Toyota created Lexus and Nissan created Infiniti), or buy up other brands (like BMW bought Rolls Royce, Tata bought Jaguar and Land Rover). MSIL decided to go with the first option of creating a new brand

from scratch for premium customers i.e., NEXA rather than buying an existing brand. Refer following table for other examples.

| Table 1. Companies with different brands in different segments to maintain exclusivity | | |
|---|---|---|
| | Regular Brand (Brand for Masses) | Premium Brand |
| | Toyota | Lexus |
| | Nissan and Datsun | Infiniti |
| | Honda | Acura |
| | GM | Cadillac |
| | Volkswagen and Skoda | Audi, Porche, Bentley, Lamborghini, Bugatti |
| | Tata | Jaguar & Land Rover |
| | Mahindra & Mahindra | Sangyong |
| | | |
| | Premium Brand | Super premium Elite Brand |
| | BMW | Rolls Royce |
| | Mercedes | Maybach |

The NEXA Experience: In the Pursuit of Differentiation

Understanding the requirement of premium customers, NEXA's focused on building a long-term relationship and experience which is akin to hospitality received at a luxury hotel. In an attempt to give a different experience, 75 per cent of the executives at NEXA were hired from different sectors such as hospitality, airlines and banking. They were made to spend seven days at Delhi's luxury hotel JWT to make them understand nuances of pampering the elite customers. To bring this difference in customer approach, the Maruti turned down all the requests from its existing dealers to induct some of their sales and marketing executives in NEXA.

Salient features of NEXA are:

- For being premium and exclusive, NEXA showrooms followed Black and White theme.
- NEXA Relationship Managers were dressed in suits and tie with iPads. They were hired from sectors such as hospitality, financial services and aviation to offer a luxury car buying experience.

- NEXA dealerships were completely paperless. Convenience offered to the customers was boosted through the use of technology.
- Personal care, warmth and attention in car buying and ownership experience were the focus point in these dealerships.

NEXA Performance: few hits and more miss

Four and half years after the roll out of first car from NEXA, the carmaker has at least tasted partial success in breaking the glass ceiling. In the last two financial years, 6.6 lakh vehicles were sold through NEXA and around one million in four and half years since its launch. Though the numbers look attractive but were far lesser than Maruti's target of 2 million units by the end of 2020. There are totally five products which came from NEXA till date. If we look at the sales performance of all these products, the picture is not so encouraging.

The first car, S Cross failed to make a mark in creating the image of premium crossover though it brought some sales after price reduction. The Baleno can be termed as an outright winner in terms of its sales figure but again if you look at its pricing, the range is 6 to 7 lakhs only (Ex Showroom price); then what's premium about it? Another car which also is highly successful is the Ciaz but it's not actually the product of NEXA it was shifted to NEXA from the older distribution channels only. If we talk about the most recent launch in the form of XL6, the sales figures are not so encouraging. Secondly, the sales are largely based on Ertiga's sales only as it is just a facelift version of Ertiga. If we look at IGNIS, then it is an outright disaster for the company.

The reasons why NEXA is unable to hit the target

Creating different brand for different target market is a proven strategy across the globe and as a result when Maruti the biggest car brand in India decided to do the same the expectations were very high. But the company failed to create premium experience through NEXA because of some wrong strategic decisions.

First: Maruti Suzuki's inability to break the premium barrier through NEXA

Maruti planned a premium experience to justify the higher price point but as per many experts and even the loyal customers of Maruti Suzuki, there is nothing truly different and premium about the experience, except for the wooden flooring and fancy lighting. The quality of the interaction remains the same as that with Maruti Suzuki dealers. According to many, the idea of NEXA was great but the execution has not been effective. As it is rightly said that the automobile industry is largely run on engineering and technology in the product, while experience is only icing on the cake. NEXA largely focused on experience but products mostly remained similar on the quality front. Secondly, the Products sold through NEXA are not completely unique rather many products are actually moved from the older distribution channel only. Maruti Suzuki Ciaz as for an example was already there with existing distribution channel but after launching of NEXA it was shifted to NEXA.

The most recent launch from NEXA is XL6 which again is not a completely new model rather it's mere a facelift version of existing car Ertiga only, as a result sale of XL6 is at the expense of Ertiga only. Though it is claimed to be a bit premium version with 6-seater instead of 7 or 8-seater option with existing Ertiga but then also it's not a new car. All these developed a perception among the customer that MSIL doesn't have anything new to bring from NEXA. This is probably because the company didn't plan well the strategy and did it hurriedly.

Though Scross and Baleno got good success and both were original cars coming from NEXA but they were priced almost at par with other budget cars of Maruti (Swift, Dezire, and Ertiga). So, there were sales but it didn't create the desired image of premium car.

At the time of launch, it was said that only premium cars will be sold at NEXA. Definition of premium cars; anything priced above 10 lakhs at that time. But most of Maruti's models have their cheaper variants priced below 8 lakhs while top specification variants are above 8 lakhs only. So, customers are confused should I go to regular showroom or to NEXA. Because as such the price gap is too less and that is why company is not able to differentiate between the NEXA car and a normal Maruti car. Company just added insult to injury when NEXA reduced the price of S Cross and brought it in the price range of Maruti's regular car like Swift. So much desired differentiation didn't come though some sales came from S cross. This is not the case with other companies like Toyota for example. There is huge gap between Toyota and Lexus brands' pricing. Same is the case with Volkswagen and Audi also or even much more premium brand Mercedes and Maybach. But in the case of regular MSIL brand and NEXA brand the price gap was too thin to be able to get differentiated. Maruti's premium showroom concept would have worked well if they could stick to the rule that only 10 lakhs plus cars (or even higher price car) will be sold via NEXA. But Maruti diluted NEXA by selling much cheaper cars also in NEXA, thereby reducing gap between NEXA and its standard showrooms. In fact, the overlapping price range is increasing confusion and rivalry among the dealers of the same company.

Second; The NEXA products: Not so unique and not so premium

There are total 5 car models launched through NEXA till date. S Cross being the first one and XL6 is being the latest one. The others are Ciaz, Baleno and IGNIS. Though S Cross tested success after initial failure but it came only after reducing the price substantially. Though price reduction increased the demand but it damaged sheer purpose of NEXA brand that is premiumness. They failed to understand two things; **one**; that if you have to reduce the price to bring the demand then there is nothing premium about it. **Second**; that it is not the number every time that determines the success or failure; at least when you are talking about being the exclusive and premium brand (The case with NEXA). But all these years for Maruti, success has

been defined in terms of sales volume and market share only and as a result they committed a mistake of reducing the price of S Cross and damaged the brand.

This led to an important question that if you wanted to bring the sales numbers by reducing the price only then why not to do sales from existing and established channel only. Why this additional expenditure of creating a completely new channel NEXA. But it seems that the company got confused between these two channels and failed to appreciate the fact that lower sales in S Cross was also due to early launch of CRETA in the same segment from Hyundai which is definitely a bigger brand and established brand in upper end segment. Though the product Baleno is highly successful under NEXA but the brand name is also an issue. It is the same name which was associated with not so successful product called Maruti Suzuki Baleno which was launched around 15 years back. It would have been better if a new name was chosen instead of Baleno as the product is completely different from the original one.

Third; problems from NEXA's dealer front

There were many problems at dealer end also and as a result many of them are willing to move back to the original distribution channel of Maruti Suzuki which is now renamed as Maruti Suzuki Arena to differentiate it from NEXA dealership. The dealers started to lose interest in NEXA dealership because their profit started declining due to sinking sales. Initially a lot of NEXA dealers used to sell up to 200 units, but lately it's averaging 120 units only. As a result, the margin offered on NEXA products came down from 4.5- 5 per cent to 3.5 - 4 per cent. Though, the margins were still better than Maruti Suzuki Arena's 3-3.5 percent.

The problem got aggravated when even after not getting the desired success through NEXA the management decided to increase NEXA dealership which in turn made the profit even thinner for dealers. This decision was against the promise made to dealers by management that number of outlets will remain limited to maintain its exclusivity. But they broke the promise and started giving new dealerships. For example, in Bengaluru city it was increased to around 12 outlets from 3. Similarly, number of NEXA outlets increased across the country which also affected its exclusivity negatively and more importantly upset the dealers.

What could have been done differently?

Though as many pointed out that Maruti should have woken up very early in bringing this strategy for differentiation but as it is said better late than never. Different brand for different car is a tried and tested strategy still Maruti failed largely because of poor execution of the strategy. But it's not all over for Maruti. It can still achieve success with NEXA with better clarity and right approach with some strategic changes.

- One reason which contributed to failure of NEXA is that it failed to appeal the premium buyers because of conventional design of its car. Look at Ignis for example. Maruti needs to make serious effort to move from conservative shapes to unique, original and appealing designs to attract elite customer group.

- Creating a new brand in any industry is an uphill task. Maruti's decision to create new brand from scratch was obviously a difficult task and it turned out to be the case also. Rather than creating new brand NEXA from scratch; Maruti could have adopted a much easier (Obviously not so cheaper) alternative of acquiring an already established brand in the upper end segment, the way another Indian giant Tata Motors did few years back. Tata acquired Jaguar and Land Rover from Ford in 2008 by paying handsome price and then maintaining it as a separate brand. Today Jaguar and Land Rover have once again acquired the lost cult status and Tata Motors has made its presence in upper end car segment also. Maruti also could have used this alternative, which in a way is shortcut also as you have already established brand in the desired segment.
- Establishing dealership is the most important task in car business. But it is one of the most expensive and difficult tasks also. And as a result, many companies have found different alternatives to that. For example, Nissan has done a smart move by selling Datsun inside Nissan showrooms only and by doing that saved lot of cost. Maruti could have also done the same thing at least initially to see how successful the new brand is before going all exclusive. Fiat also sold its car from Tata's dealership network for a reasonably long period of time before doing it all alone.
- One more reason for failure of NEXA is that even after a new channel was created customers remained confused because the price difference between Maruti's car and NEXA's car was too thin to get differentiated. Maruti needed to price its car from NEXA substantially high compared to regular Maruti's car to bring the desired differentiation. Rather Maruti did a big blunder by reducing price of S Cross to get sales.

CONCLUSION

Brands are perceived in very rigid ways which makes it very difficult for seller to extend the brand across different segments. Maruti wants to sell to everyone but it failed to appeal the upper end customers even after multiple attempts. As a result, company decided to bring a separate brand for premium cars and NEXA was launched. Maruti being the biggest brand in Indian car market the expectations were very high from everyone. But NEXA failed to create the desired image of premium brand. The biggest reason for NEXA's inability to attract premium buyer is its poor planning. It failed to provide enough original cars from NEXA because they did it too hurriedly. Had Maruti stuck to the idea of bringing only original cars from NEXA the story would have been different.

Maruti also failed in having a consistent premium pricing strategy for NEXA. It made a mistake by reducing price of the first car S Cross to attract more buyers. Baleno is highly successful but there is nothing premium in its pricing; it is actually at par with some of the models of Maruti. This made the customer confused about how NEXA is

different from Maruti if pricing is similar. Had Maruti kept the price of NEXA substantially higher than that of Maruti then the differentiation could have come. Maruti needs to understand that sales figure is not the ultimate criteria which determine success especially when you are selling a product which is not for masses. Maruti also needs to understand that a big strategic decision like NEXA requires time commitment from the company both before and after launch.

The future success of NEXA depends upon the type of cars company launches through NEXA and at what price, otherwise it would turn out to be a big strategic blunder for the company and an additional cost only.

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