

The Indian automobile industry: Is it competitive enough?

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In the post liberalization period, the Indian automobile industry saw the emergence of new players and the birth of competition. The principal issues confronting the Indian automobile industry now are: Low economies of scale, outmoded technologies, absence of global outlook, intense competition and unfriendly government tax policies. The goal facing the industry today is one of achieving a balance between business innovation, technical innovation and liberal government policies.

In an earlier article titled “Where is Indian industry headed” one had looked at the Indian industry as a whole with reference to the Michael Porter model on “*The Competitive Advantages of Nations*” and concluded that urgent action need to be taken by both the Government of India and industry as a whole if the Indian economy was to be globally competitive. This article takes a look at the Indian automobile industry with the Porter Model as a background to assess its competitiveness in the global arena.

The Porter model

Michael Porter in his article “*The Competitive Advantage of Nations*” has argued that nations competitive advantage dependent on four factors:

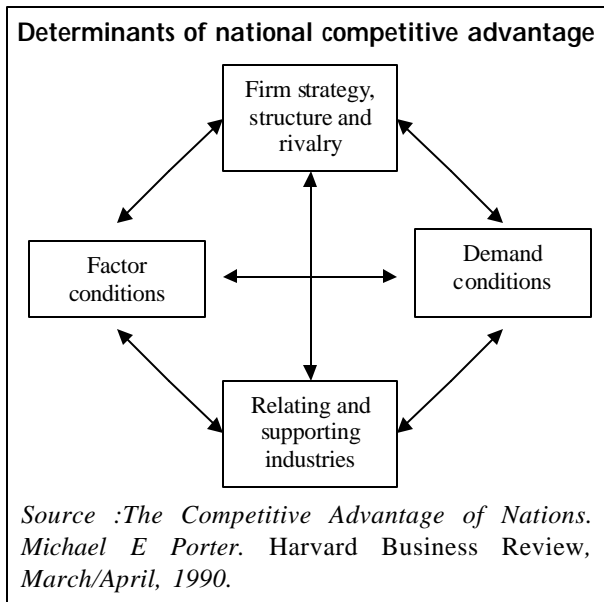
- 1. Factor conditions:** The nation’s position in factors of production, such as skilled labor or infrastructure.
- 2. Demand conditions:** The nature of market demand for the industry’s product or service.
- 3. Related and supporting industries:** The presence or absence in the nation of supplier industries and other related industries that are internationally competitive.

- 4. Firm strategy, structure and rivalry:** The conditions in the nation governing how companies are created, organized and managed, as well as the nature of domestic rivalry.

The automobile industry in India

For close to half a century the automobile industry has been a three horse race, Hindustan Motors and Premier Automobiles for cars and Bajaj Auto for two wheelers. Concepts like competition, world-class quality, product development and innovation and customer focus were unheard of in this scenario. None the less than manufacturers did have profitable operations as the entire industry operated in the government-protected cocoon of the license permit raj. Even the advent of Maruti Udyog Ltd., in the mid 80’s in collaboration with Suzuki did not significantly change the competitive edge in the industry though it did get in the much needed quality consciousness into the industry. Customers for once were able to get a quality product at reasonable prices and Maruti became a run away success cornering nearly 80% of the market and also in the process expanding the four-wheeler market.

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The advent of liberalization in 1991 has really opened up the automobile market. International giants like Ford, GM, Hyundai, Honda not to mention homegrown majors like Telco, Bajaj and the TVS Motors are now in the fray. The customer has plenty to choose from with the result the industry is operating in an extremely competitive environment. The advent of international majors has also meant that not only have they brought in well-known brands, they have also brought in their well-established manufacturing techniques. As a result while the quality offerings have gone up, the customer mind set has not kept pace with the result the Indian customer is still not demanding enough. Recently companies like TELCO, TVS Motors and Bajaj Auto have also demonstrated their ability to indigenously develop manufacture and successfully market vehicles in India. It may be truly said that the auto industry in India has come of age.

The coming of foreign players into the Indian auto sector has also given a boost to the auto ancillary industry. A number of these companies have also established themselves as OEM suppliers to Global auto giants. Companies like Sundaram Fasteners and Sona Steering to name just a few. Several international auto component manufacturers like Delphi are also planning to set up units in India to take advantage of the availability of low cost trained labor.

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Problems with the Industry

While what has been said so far may paint an extremely rosy picture and also give the impression that the industry may be ready for international competition this is far from true. One of the main problems is that the total volumes of the auto industry are far too low when compared to international markets, this is especially true with the four wheeler market, for instance the total annual sales of passenger cars in India at around 5 lakh units is less than a fourth of GM's sales in the US. Plants therefore do not operate with economies of scale. The costs naturally are higher than what they should be.

Though there are a large number of ancillary units with some of them boasting of international quality standards the industry itself is far too fragmented with a wide variety of technologies. As a consequence the quality standards are not really very consistent.

Government policies

It is only with the advent of liberalization that the free entry of both domestic and foreign manufacturers into India has been relatively free. However one of the major impediment in the growth of the auto sector in India has been the state of the infrastructure particularly the roads. Not enough work on the highways network has been done since independence and the conditions of the roads can be summed up in one word—pathetic. The heartening fact though is that the government

has taken up the task of improving the highways and in the first phase the four major metros and the north-south and east-west corridors are being connected with high quality wide highways. These projects are slated for completion by mid 2005. Hopefully the advent of these highways will speed up goods travel in the country and in turn give a boost to the auto sector.

For years now automobiles especially cars have attracted very high incidences of taxes like excise duties etc. The logic of this seems to be the view that cars are an item of luxury and therefore should be taxed as such. As a result cars get over priced leading to a depressed demand. It is difficult for

companies to grow in such a scenario and economies of scale will not apply.

While free entry is permitted there is really no mechanism for players to exit the market if they find the going tough or for them to sell off to others. Though GM has managed to take over all the international operations of Daewoo Motors they have been unable to do so in India. A fully functional assembly plant is therefore lying idle. At whose cost?

The road ahead

World over there is a trend towards consolidation of interests. The interest of GM in Suzuki, Daewoo ... the merger of Daimler and Chrysler to name just a few. Sooner or later such consolidation will take place in India too. A similar process of consolidation may take place in the parts manufacturing also. World over vehicle manufacturers are moving towards few dedicated suppliers for parts. If this is replicated in India consolidation of parts manufacturers is inevitable.

As customers over a period of time get used to receiving products of international quality they can become more demanding. Given the fact that the Indian market is potentially a huge one, this can

push manufacturers into becoming globally competitive.

Conclusion

The automobile industry in India has over the last 10 years been converted into a very competitive one and is also operating in an environment where skilled labor force is available. From the industry's competitive perspective only two of the factors mentioned in the Porter's model are currently favorable.

There is also a need to expand the market so that economies of scale can operate. If necessary a process of consolidation in the industry may also be necessary.

The government too on its part must play its role in the form

of infrastructure development and in having the right legislation in place so that the gains made since the process of liberalization started are continued.

The basic building blocks in order to make the automobile industry in India globally competitive are presently in place though much needs to be done by both industry and government if the initial promise that has been shown in the last 10 years has to be truly translated to a reality in the future.□

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Quotes

Here is the prime condition of success: Concentrate your energy, thought and capital exclusively upon the business in which you are engaged. Having begun on one line, resolve to fight it out on that line, to lead in it, adopt every improvement, have the best machinery, and know the most about it.

—Andrew Carnegie

Risk comes from not knowing what you're doing.

—Warren Buffet

Business, that's easily defined—it's other people's money.

—Peter F Drucker

A business that makes nothing but money is a poor business.

—Henry Ford

If I had to sum up in a word what makes a good manager, I'd say decisiveness. You can use the fanciest computers to gather the numbers, but in the end you have to set a timetable and act.

—Lee Iacocca