

Group 9

Strategic Management Project Report

Automotive Industry

Submitted to: Dr M S Subhas

Submitted by:

Nayan S Momaya (MBA09001022)

Prashantkumar Math (MBA09001027)

Raghavendra M Nadgoud (MBA09001029)

Vishwas G Raichur (MBA09001056)



1.0 Industry Background

Indian Automotive Industry

India is manufacturing over 11 million vehicles and exporting about 1.5 million every year ever year. It is the world's second largest manufacturer of motorcycles, with annual sales exceeding 8.5 million in 2009. India's passenger car and commercial vehicle manufacturing industry is the seventh largest in the world, with an annual production of more than 2.6 million units in 2009. In 2009, India emerged as Asia's fourth largest exporter of passenger cars, behind Japan, South Korea and Thailand. Size of Indian automobile industry is \$90 billion.

As of 2009, India is home to 40 million passenger vehicles and more than 1.5 million cars were sold in India in 2009 (an increase of 26%), making the country the second fastest growing automobile market in the world. By 2050, the country is expected to top the world in car volumes with approximately 611 million vehicles on the nation's roads.

Production Statistics

Year	Car Production	% Change	Commercial Vehicles	% Change
2009	2,166,238	17.34	466,456	-4.08
2008	1,846,051	7.74	486,277	-9.99
2007	1,713,479	16.33	540,250	-1.20
2006	1,473,000	16.53	546,808	50.74
2005	1,264,000	7.27	362, 755	9.00

Exports

India's automobile exports reached \$4.5 billion in 2009. India's automobile exports are expected to cross \$12 billion by 2014. In 2008, Hyundai Motors alone exported 240,000 cars made in India. Nissan Motors plans to export 250,000 vehicles manufactured in its India plant by 2011.

In September 2009, Ford Motors announced its plans to setup a plant in India with an annual capacity of 250,000 cars for US\$500 million. The cars will be manufactured both for the Indian market and for export. The company said that the plant was a part of its plan to make India the hub for its global production business. Fiat Motors also announced that it would source more than US\$1 billion worth auto components from India.

Global Scenario

Worldwide Production

In 2007, worldwide production reached a peak of 73.3 million new motor vehicles. In 2009, production dropped 13.5 percent to 61 million. Sales in the U.S. dropped 21.2 percent to 10.4 million units, sales in the European Union (supported by scrapping incentives in many markets) dropped 1.3 percent to 14.1 million units. China became the world's largest motor-vehicle market, by both sales and production. Sales in China rose 45 percent in 2009 to 13.6 million units.

Sales Trends

About 250 million vehicles are in use in the United States. Around the world, there were about 806 million cars and light trucks on the road in 2007, consuming over 260 billion gallons of gasoline and diesel fuel yearly. The Detroit branch of Boston Consulting Group predicts that, by 2014, one-third of world demand will be in the four BRIC markets (Brazil, Russia, India and China). Other potentially powerful automotive markets are Iran and Indonesia.

Year	Production	Change
2000	58,374,162	3.80%
2001	56,304,925	-3.50%
2002	58,994,318	4.80%
2003	60,663,225	2.80%
2004	64,496,220	6.30%
2005	66,482,439	3.10%
2006	69,222,975	4.10%
2007	73,266,061	5.80%
2008	70,520,493	-3.70%
2009	60,986,985	-13.50%

Numbers available as on May 2010

China, the world's largest automotive market posted a 33.2% increase in car sales in April 2010 with the trend showing a decline from the 71.78% growth in the first quarter of this year. The association forecasts annual sales for this year at 15 million (1,50,00,000), roughly a 10% growth over last year.

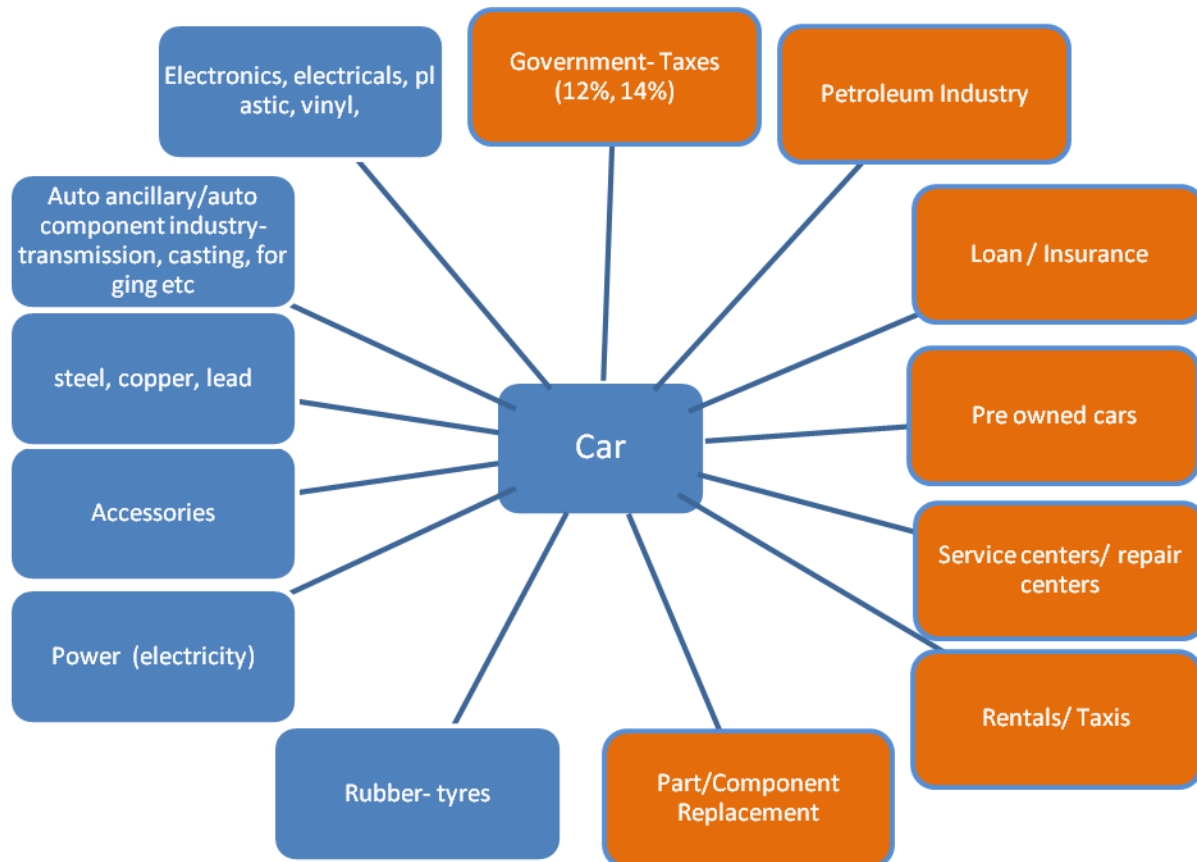
Japan too managed recovery as combined figures for cars, trucks and buses excluding mini cars increased by 34% to 2,22,095 units.

Spain registered a 39.3% increase to 93,637 according to Spanish car manufacturers' group ANFAC, up from 67,214 in April 2009. Germany on the other hand witnessed its fifth consecutive monthly sales decline of 32% to 2,59,500 units. The decline was largely due to a not so good consumer sentiment and end of a government aided stimulus programme. Italy too witnessed a decline of 15.6%. Great Britain however managed an 11.5% increase despite the government stimulus programme ending last month. France too posted a growth of 1.9% although significantly lower than the 13% recorded in last month.

North America in general was able to maintain the growth momentum in the last month. With the Detroit Three (GM, Ford, Chrysler) posting gains US sales grew by 20% to 9,82,131 units according to Autodata Corporation. At the same time last year the US auto industry was facing its worst turmoil and GM and Chrysler were en-route to bankruptcy filings. GM posted the lowest growth of 7.2% among all automakers because of it phasing out four brands during its restructuring period. Industry experts expect 2010 sales to rise by about a million units aided by a growth in the US GDP. GM took the #1 spot in April by selling 1,83,614 light vehicles. Ford and Toyota came in

2nd and 3rd at 1,67,283 and 1,57,439 units translating into a growth of 24.9 and 24.4% respectively. Toyota was able to increase its sales despite the massive recalls due to extension of its incentive program which includes zero percent financing and free maintenance.

2.0 Block Diagram of Auto Industry



Various partners:

As we can see in the block diagram, there are several dependent and associated sectors of automotive industry. The major automobile OEMs have several partners to supply the required components to produce & assemble a vehicle. Most of the OEMs manufacture critical components like engine and assemble other components procured from various vendors.

The major auto ancillaries and component manufacturers are

- Mico Bosch- Safety systems, semiconductors, sensors, horns, spark plug etc.
- Bharat Forge- forgings
- Delphi- Hybrid & electric products
- Federal mogul- pistons, piston rings etc.
- Fair field atlas- gears, transmission system etc.
- Gabriel- bearings, shock absorbers etc.
- Halonix- CFL and halogen lamps
- Saint- Gobain- automotive safety glasses for wind screens
- Lucas- TVS- starters, motors, wipe starters etc.
- Minda- auto electrical components
- Sundaram-clayton- air & vacuum brakes etc.
- Sundaram fasteners- high tensile fasteners, intelligent information system etc.
- Tyco electronics- harnessing system
- Exide batteries- it has the market share of 72% in the automobile battery segment and 62% of its business comes from auto industry.

Diversification

Pre-owned car business

Mercedes-Benz has entered the pre-owned business for its pre-owned cars. Named 'Proven Exclusivity', the used car business is a globally benchmarked pre-owned car program. Mercedes-Benz Pre-owned cars

program operates in 35 countries presently. The service boasts of stringent and clearly defined criteria for vehicle evaluation, quality and warranty. Comprehensive evaluation and refurbishment criteria, scientific tools for audit and inspection as well as manufacturer backed warranty go into the making of a certified 'Proven Exclusivity' vehicle.

Maruti Suzuki has ventured into car driving school with special emphasis on road safety and grab the opportunity of being the leader in the organised driving school business which also includes special focus on women. They have theory classes along with simulation before heading onto the roads.

To cater to customer needs they have 24x7 helpline no. with the backing of a call centre. Maruti also boasts of "Maruti On road Service" for any emergencies on highways.

Maruti True Value is India No.1 organized pre-owned car brand which is a certified used car dealer network with 340 outlets in 197 cities providing all car related services under one roof by professionally trained manpower.

True Value has transparent and fair evaluation process, which is currently missing in the largely unorganized market for pre-owned cars. True Value Category cars are refurbished in state of art workshops using Maruti Genuine Parts and by skilled technicians. As a mark of confidence, and to provide reassurance to customers, every vehicle bought under Maruti True Value is inspected and certified by Maruti Engineers and the Car carries a one-year warranty and three free services. Convenient finance options are also offered to buyers of Maruti True Value cars.

More diversification options

- In the year 2009-2010 the amount invested in R&D activities was Rs. 173.30 crore which was as little as Rs 91-crore in 2008-09. Maruti

Suzuki must invest more in R&D of hybrid, electric and alternate fuel vehicles.

- Maruti Suzuki India will add on 200 company sponsored service centres to their present 2840 service centres fleet by the end of this fiscal year. Maruti expect to sell around 1.2 Million cars by the end of this financial year and in order. With 200 more centres coming in Maruti will have total number of 3040 service centres across the nation. Maruti Suzuki is aiming to open service stations within a range of 25 kms of every Maruti dealer.
- Recently, Maruti Suzuki India has announced to Invest Rs. 6,125 crores. The company has already sanctioned Rs. 1700 Crores for establishment of third plant at Manesar.
- Suzuki has also planned to manufacture cars with the leading German automobile group, Volkswagen for its dominance in global market.

Leasing

Operational leasing of vehicles, mostly cars, is a complicated market under which a corporate leases cars for use by senior executives. The leaser handles overhead costs like maintenance of the vehicle, insurance and repairs, while running costs like fuel and driver's salary are paid by the borrower company. The advantage for a borrowing company is that it gets to practically own a vehicle without taking the depreciating assets on books and is also not hassled by paperwork.

Car-leasing subsidiary Arval India will be investing Rs 560 crore to treble its fleet-size in the next two years by purchasing around 7,000 vehicles, which will give them a better footprint in the Indian corporate operational leasing market, which has a tremendous scope to grow. Its competitors in India include Leaseplan owned by Volkswagen. At present,

Maruti's Swift, Honda City and Toyota Innova are favourites in their respective categories.

N2N Fleet management provides lease and fleet management solutions to corporates. This fleet management service includes end-to-end solution across the vehicle's life, which includes leasing, maintenance, convenience services and remarketing.

Bottle necks:

- Supply Chain Management & logistics- The OEMs have to source most of the components from vendors from various locations, so backward integration and logistics required to get them to the assembling unit requires considerable amount of time and cost.
- For OEMs to manufacture all parts of a car is nearly impossible so OEMs outsource the job of manufacturing components to its vendors. But the threat in this case is that the dependency on vendor increases and switching cost is high to find new vendor as it requires to customise the components according to specifics.

E.g. JBM which is basically a bus body building company recently announced its venture into complete bus manufacturing & assembling with a JV which provides technological competence along with its experience of its Indian operations JBM will become a force to reckon.

3.0 Competitive Structure

Major automobile (car) manufacturing companies in India

1. BMW India
2. Fiat India
3. Ford India
4. General Motors India - Chevrolet
5. Honda Sael
6. Hyundai Motor India
7. Mahindra Renault
8. Maruti Suzuki
9. Mercedes-Benz India
10. Mitsubishi Motors
11. Nissan Motor India
12. Toyota Kirloskar
13. Volkswagen India
14. Audi India
15. Škoda Auto India
16. Tata Motors

1. BMW India

Car sales in most of the emerging markets continued the pattern of strong growth seen throughout the year. The market in India expanded by around 30% in the period July – September.

Growth of approximately 25% is expected in India. The initial investment in India is 1.1 billion Indian Rupees. *BMW India Private Limited* has

employed around 200 people. *BMW India Private Limited* currently has 15 dealerships across 13 cities. BMW has made a strong comeback and sold 5,345 units compared to 5,109 units sold by Mercedes Benz during the last 11 months of this year

BMW has an assembly facility at Chennai and had recently hiked its production capacity to 5,400 units per year on a single shift basis from 3,000 units earlier. It will further invest Rs 70 crore by 2012 to add more capacity.

2. Mercedes Benz

German luxury automobile manufacturer Mercedes-Benz's Indian subsidiary on Wednesday announced the roll-out of its 30,000th locally assembled car. Mercedes recorded a year-on-year growth of 86 percent in January-November 2010. Considering aggressive growth, the company has decided to set up its own technologically advanced paint shop capable of water based painting. The investment in this would be Rs. 200 crore. The paint shop, with an annual capacity of 20,000 units, would be operational by the second half of 2012. The luxury car market in India grew by approximately 65 percent in January-November 2010 while Mercedes-Benz India grew faster at 86 percent. Mercedes started second shift operations on a permanent basis and from the next year, it will have an annual capacity of 10,000 units a year.

3. Maruti Suzuki India Limited

Maruti Suzuki India Limited is India's largest passenger car company in terms of number of cars sold each year. Its manufacturing facilities are located at two facilities Gurgaon and Manesar south of Delhi. Maruti Suzuki's Gurgaon facility has an installed capacity of 350,000 units per annum. The Manesar facilities, launched in February 2007 comprise a vehicle assembly

plant with a capacity of 100,000 units per year and a Diesel Engine plant with an annual capacity of 100,000 engines and transmissions. Manesar and Gurgaon facilities have a combined capability to produce over 700,000 units annually. Maruti Suzuki is developing a diesel engine for mid-size sedans, which is likely to be ready by the middle of 2011. In October this year (2010), the company sold 107,555 units in the domestic market as compared to 95,148 units in September 2010. The company's upcoming second and third production units are at its Manesar facility. According to figures released by the Society of Indian Automobile manufacturers (SIAM), MSI sold 91,754 units of passenger cars out of a total market of 1,82,992 units, garnering 50.14 per cent market share in the month of October. At present, MSI, which is 54.2 per cent owned by Suzuki, has an annual capacity of 8.5 lakh units at its Gurgaon plant, while Manesar can produce 3.5 lakh units annually, with the overall capacity totaling to 12 lakh units per year. Maruti, has firmed up a total investment of Rs 5,500 - 6,000 crore over the next two years to set up new R&D centre at Rohtak and build two new plants at Manesar in Haryana, which could also be utilised to contract manufacture compact cars for the VW and its lower-priced subsidiary Skoda Auto that sells Superb and Fabia brand of cars in India.

4. Tata Motors

Figures for November, 2010**PRODUCTION**

Category	NOV-10	NOV-09	NOV-08	2010-11	2009-10	2008-09
M& HCV	16,286	11,232	5,508	109,574	82,990	88,296
LCV	22,998	18,737	7,139	152,647	137,527	126,741
UTILITY	3,297	2,025	1,950	20,992	20,291	26,120
CARS	13,093	15,906	11,815	144,984	88,646	102,647
TOTAL	55,674	47,900	26,412	428,197	329,454	343,804

SALES

A. For the month

	Domestic			Exports			Total		
Category	NOV-10	NOV-09	NOV-08	NOV-10	NOV-09	NOV-08	NOV-10	NOV-09	NOV-08

M& HCV	14,703	12,507	5,792	1,170	1,158	523	15,873	13,665	6,315
LCV	20,376	16,901	10,437	2,640	1,895	1,105	23,016	18,796	11,542
UTILITY	3,106	2,226	1,811	69	37	29	3,175	2,263	1,840
CARS	12,234	18,480	12,516	324	904	483	12,558	19,384	12,999
TOTAL	50,419	50,114	30,556	4,203	3,994	2,140	54,622	54,108	32,696

B. For the year

	Domestic			Exports			Total		
Category	2010-11	2009-10	2008-09	2010-11	2009-10	2008-09	2010-11	2009-10	2008-09
M& HCV	117,243	85,845	81,909	10,859	7,908	6,834	128,102	93,753	88,743
LCV	156,407	135,804	99,214	19,954	8,120	15,181	176,361	143,924	114,395
UTILITY	25,596	20,382	26,409	534	329	552	26,130	20,711	26,961
CARS	163,395	118,903	102,837	5,504	3,712	5,174	168,899	122,615	108,011
TOTAL	462,641	360,934	310,369	36,851	20,069	27,741	499,492	381,003	338,110

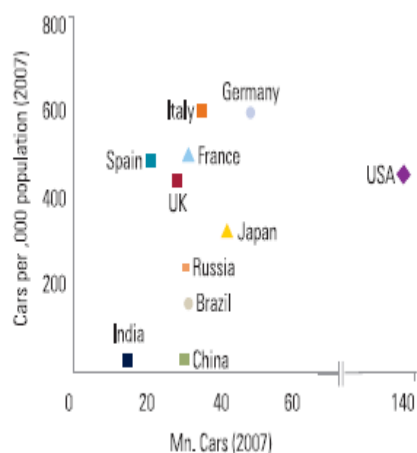
Tata Motors said on 15 Dec 2010: its global sales increased by 6 per cent in November to 79,959 units on robust demand for both commercial and passenger vehicles.

4.0 EFAS

Opportunities

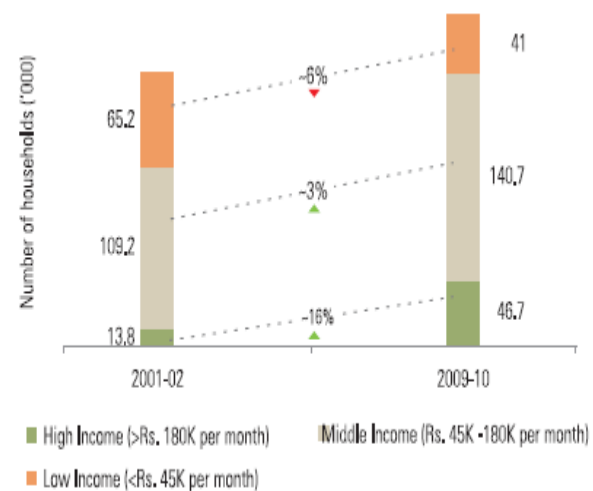
1. Increase in disposal income

Figure 2: Car population vs. Cars per 1000 population



Source: World Bank, KPMG Research

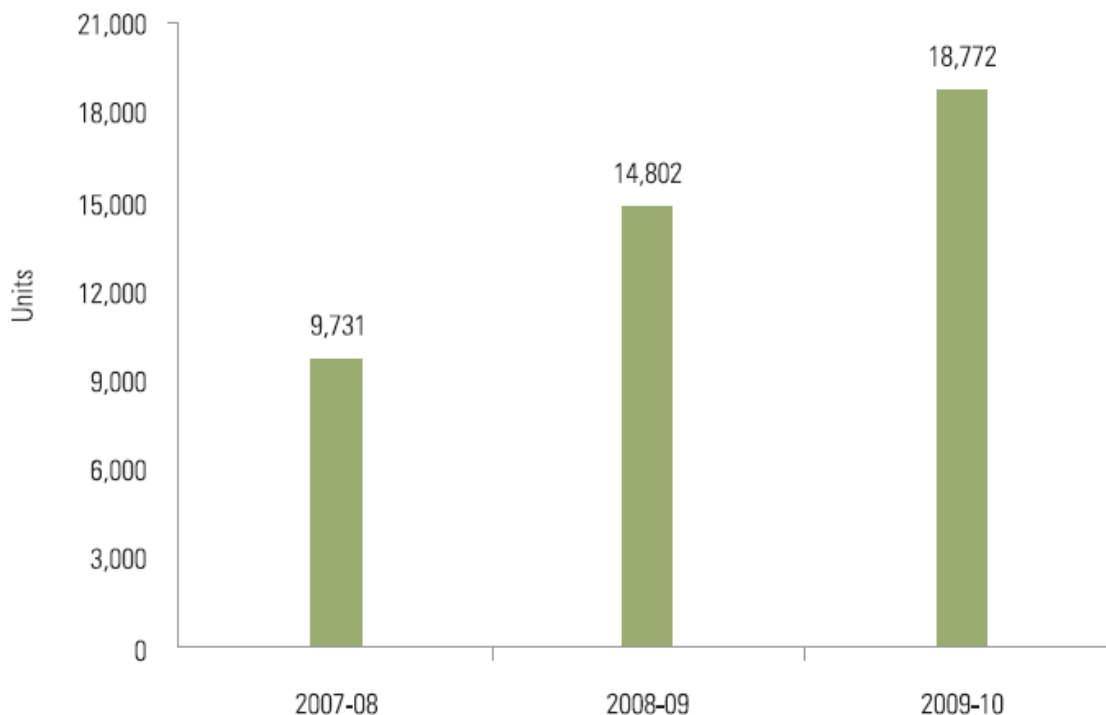
Figure 3: Growth in Population Categories with higher incomes



Source: NCAER Estimates

It is observed that 28.85% increase in the population of medium income level (45,000 to 1,80,000 per month) which can be an opportunity for hatchback segment and also more than 200 % which can be a booming area for all companies who are into small car business.

Figure 9: Luxury car sales



Source: SIAM, KPMG Research

The Household Income Survey by the National Council of Applied Economic Research says that by 2010, there will be **140,000 households** with an annual income of more than Rs. 1 crore.

2. India-Global hub for small cars

In 2008, Hyundai Motors alone exported 240,000 cars made in India. Nissan Motors plans to export 250,000 vehicles manufactured in its India

plant by 2011. Similarly, General Motors announced its plans to export about 50,000 cars manufactured in India by 2011. In September 2009, Ford Motors announced its plans to setup a plant in India with an annual capacity of 250,000 cars for US\$500 million. The cars will be manufactured both for the Indian market and for export. The company said that the plant was a part of its plan to make India the hub for its global production business.

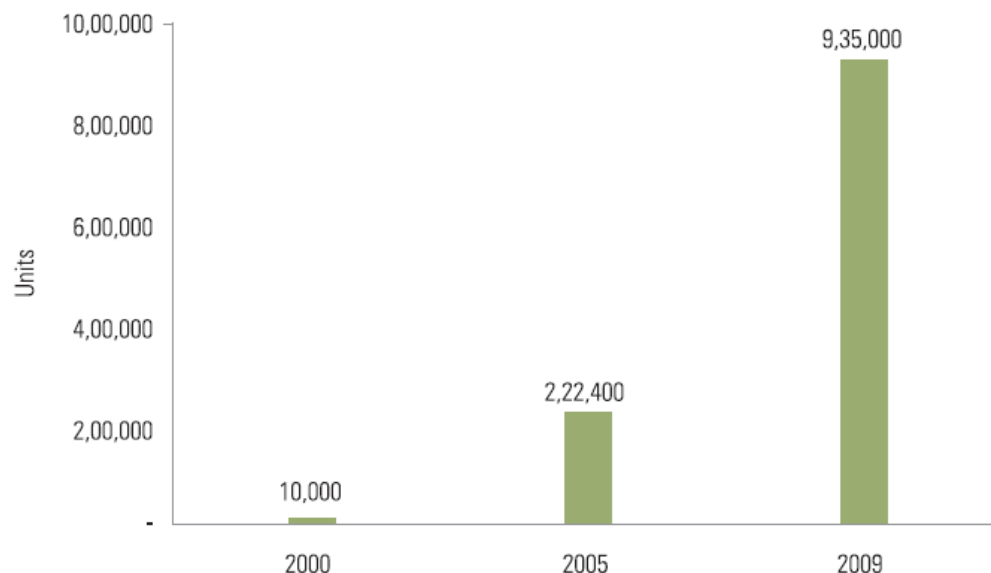
Maruti A-Star is manufactured only in India & is exported to Europe & other latin American countries.

Ford Figo will exclusively built in India and exported to Asian countries and South Africa

3. Vehicles using alternate source of fuel

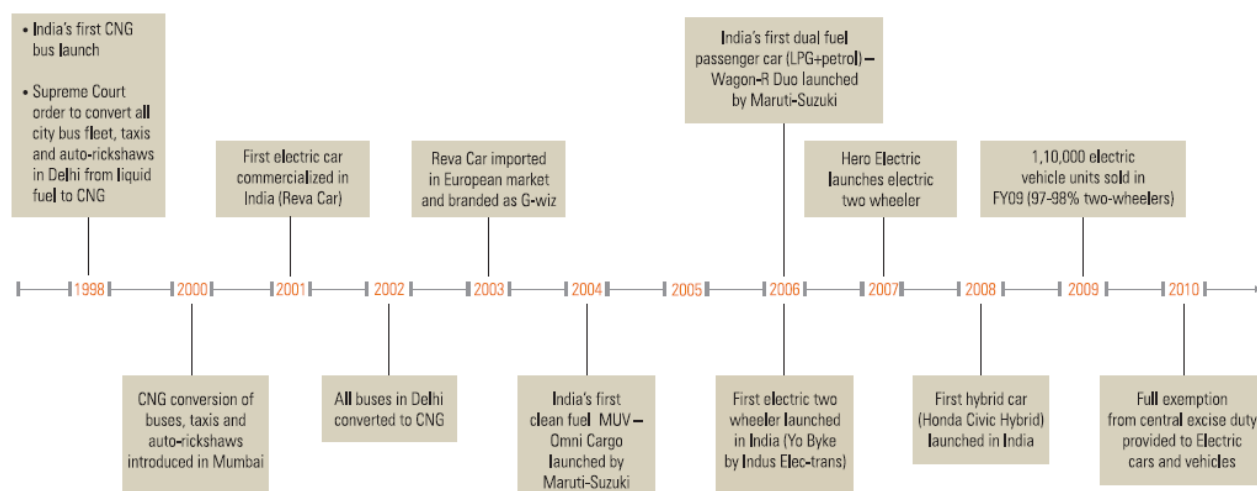
Full exemption from central excise duty for electric vehicles.

Figure 16: Growth of CNG Vehicles in India



Source: International Association for Natural Gas Vehicles

Figure 15: Key Milestones in Green Vehicles in India



Source: KPMG Research, Company Websites

4. Auto components

Indian auto component industry is one of the front runners for grabbing the global auto component outsourcing market, estimated to be worth US\$700 billion by 2015. India is among the most competitive manufacturers of auto components in the world. Auto component industry in India has potential to grow at a CAGR of 13% to reach US\$40 billion by 2015.

Source: ILO (Indian Law Offices)

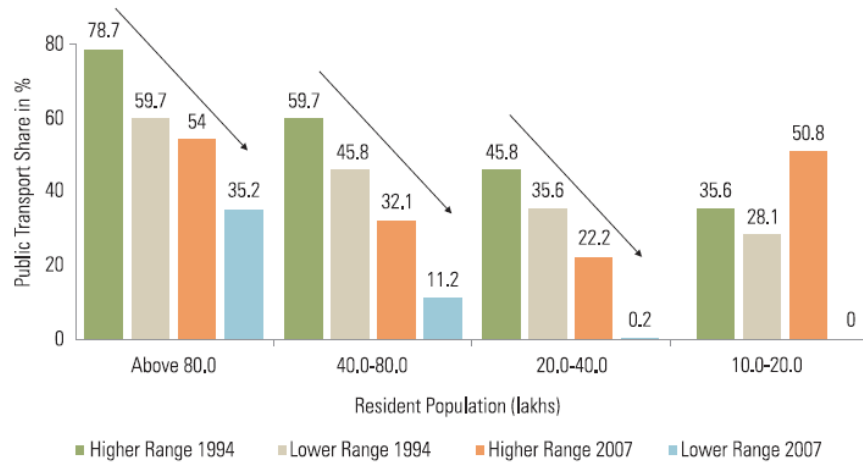
Various global certification

Details of various certifications are listed below	Number of Companies Certification/ Awards
456	I S O 9000
248	TS 16949
136	Q S 9000
129	I S O 14001
9	Deming Award
4	JIPMA Award

5. Inefficient public transport

In India investment in infrastructure for public transportation is happening mainly in metro cities. (Metro- New Delhi, Bengaluru).

Figure 19: Public Transport Share in total transportation



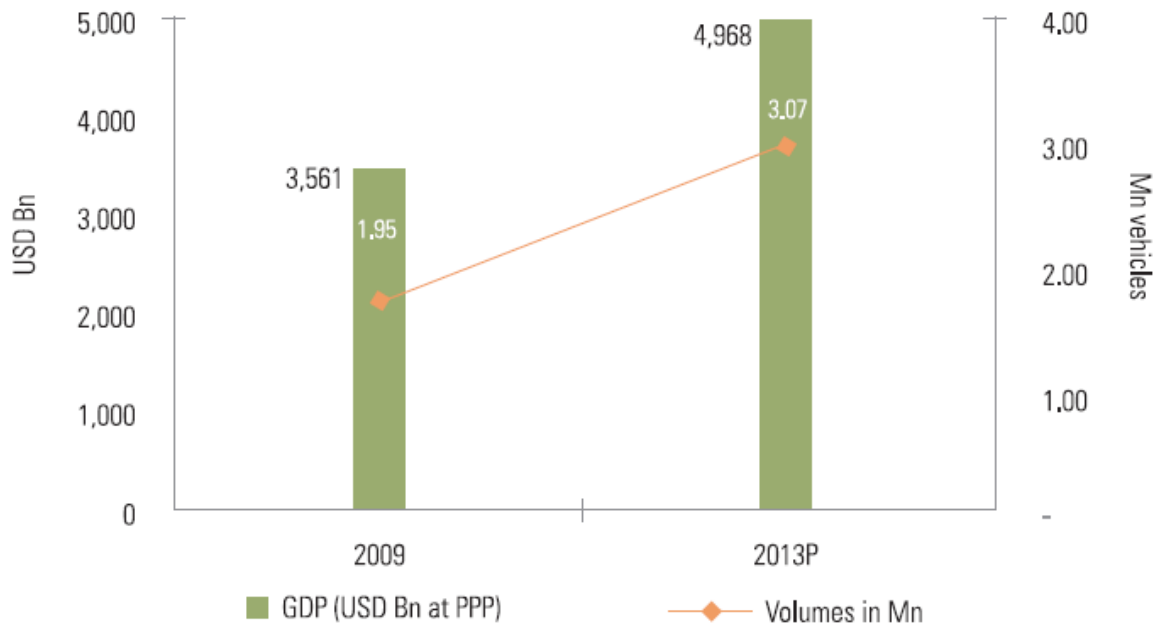
Source: Study on Traffic and Transportation Policies and Strategies in Urban areas in India, May 2008, WSA, Ministry of Urban Development

6. Favourable economic conditions and 100% FDI

India is fundamentally strong economically developing country. It has survived global economic crisis better than other developed countries.

GDP growth at 8.75%

Figure 1: Indian GDP growth vs. Annual passenger vehicle volumes

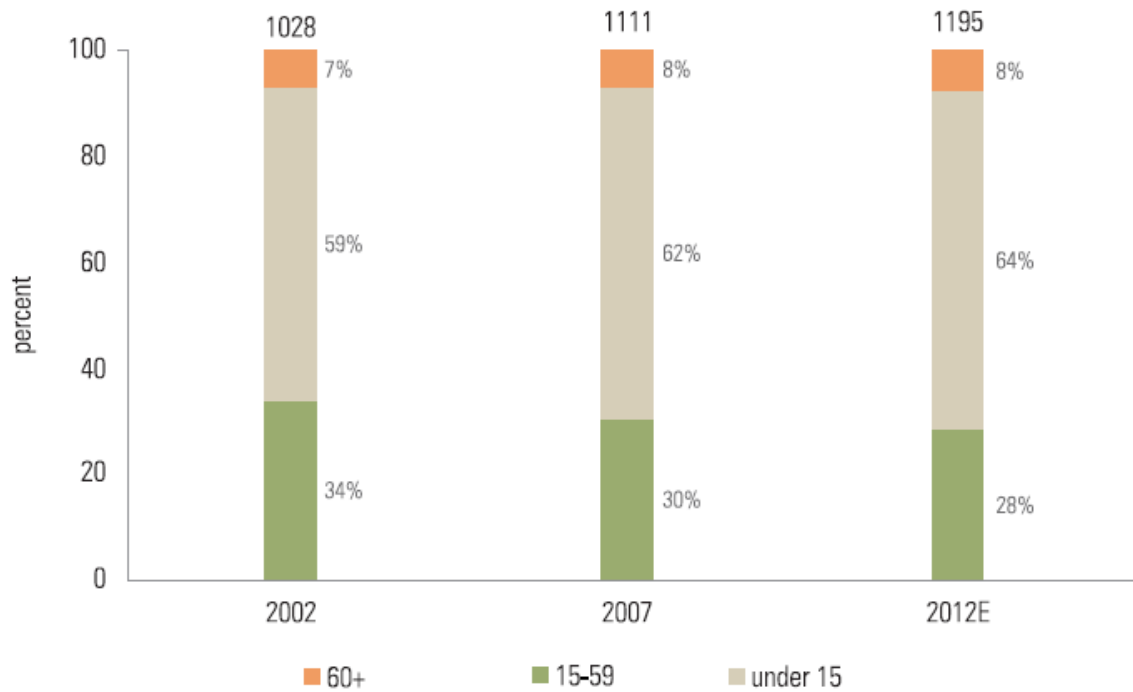


Source: EIU, KPMG Research

The average growth of GDP is approx 8-9%. The average increase in GDP is about 352 Billion USD so it will result in increase in automobile sales by 1 million units.

7. Population-age mix

Figure 8: India's changing demographic profile (Mn) across age groups

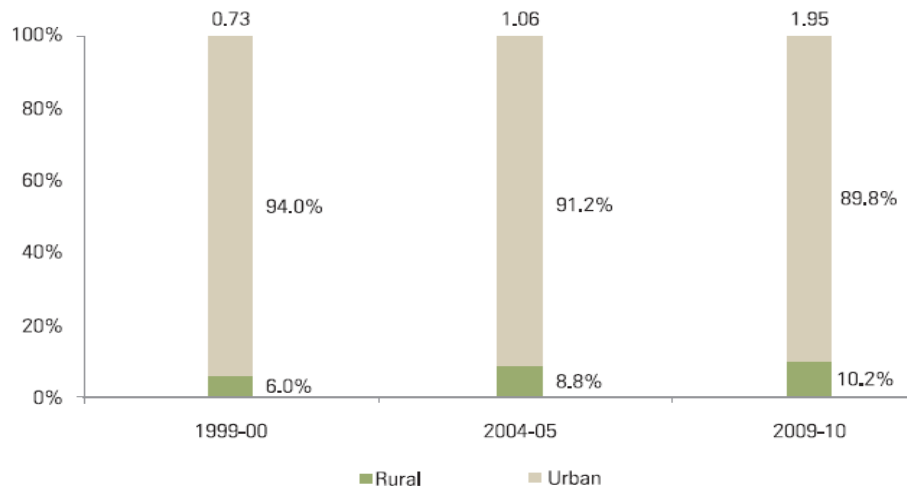


Source: Planning Commission, India

There is a gradual increase in percentage of population under 15 years category, so definitely there will be increase in population between the age group 15 to 40 in the next 5 years. Hence the consumption pattern of vehicles will also increase.

8. Growth in rural demand for passenger vehicles

Figure 10: Growth in rural demand for passenger vehicles (1.95 Mn vehicles in 2009-10)



Source: Emkay Research, NCAER

9. Low cost manufacturing Capacity

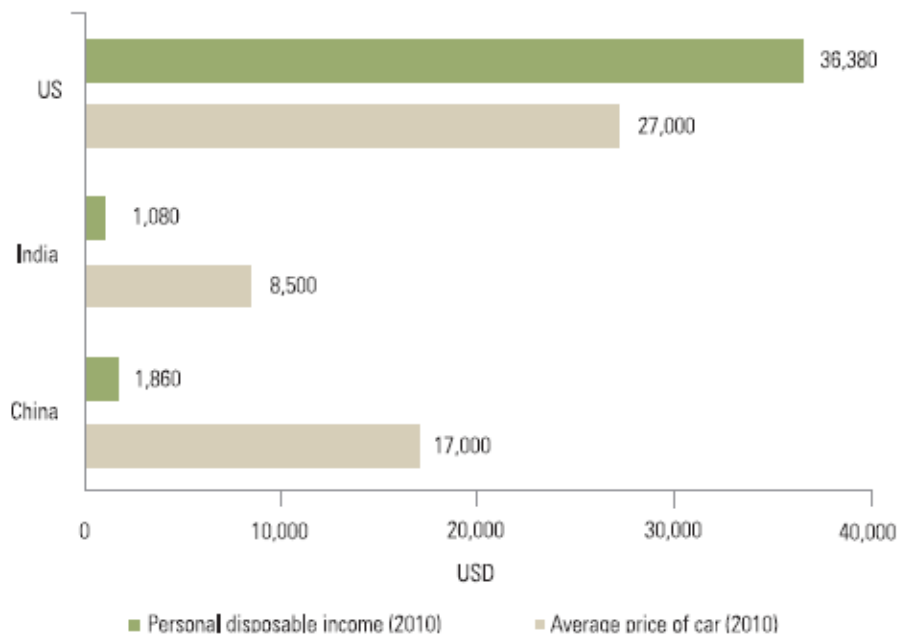
Low cost Factor:

Average wages in India are almost less than 50 % of wages in developed countries. Even after factoring for lower productivity, the net cost advantage is about 30 %. Designing, Engineering and IT skills” India being the low cost producer of aluminum and some grades of steel, auto components will definitely be cheaper by 2-30%.

	Germany	India	US	Brazil	Mexico	China
Availability of skilled labour	7.5	7.4	7.2	6.4	6.3	4.8
Availability of qualified engineers	8.5	7.5	7.4	6.6	6.6	4.2

10.Huge potential for auto Industry

Figure 6: Vehicle affordability



Source: KPMG Research, EIU

According to the Society of Indian Automobile Manufacturers (SIAM), total commercial vehicle (CV) sales is estimated to grow to 664,000 units in 2010-11, while the medium and heavy commercial vehicle (M&HCV) segment would be about 306,000 units.

Country	Cars per 1000 persons
US	765
Japan	543
UK	426
Brazil	81
India	12

Company	Capacity	Investment (Rs in Crores)
Maruti	250000	6500
Hyundai	600000	4500
TATA	500000	1080
Toyota	200000	1395
Ford	200000	2250
GM	140000	2925
Nissan	400000	4500
Volkswagan	110000	3375

According to the CII survey, the Indian automotive industry is expected to grow at the rate of about 13 percent per annum over the next decade to reach a size of around \$165-175 billion by 2022. The size of the global auto component industry is also expected to grow at 12 percent over the next decade to reach around \$160 billion by 2016.

11.JV between domestic & global players

TATA-Fiat: Fiat uses the dealership network of TATA Motors and Fiat supplies engines to TATA

Bajaj-Renault- Nissan: To manufacture small cars in India

Volkswagan-Maruti Suzuki: Maruti-Suzuki will manufacture csrs and Volkswagen will market it in other countries

Toyota- Kirloskar: Etios will be launched in India first and will also be manufactured in India and exported to other countries.

M&M –Ssang Yong

Government policy encouraging Automotive Industry's growth

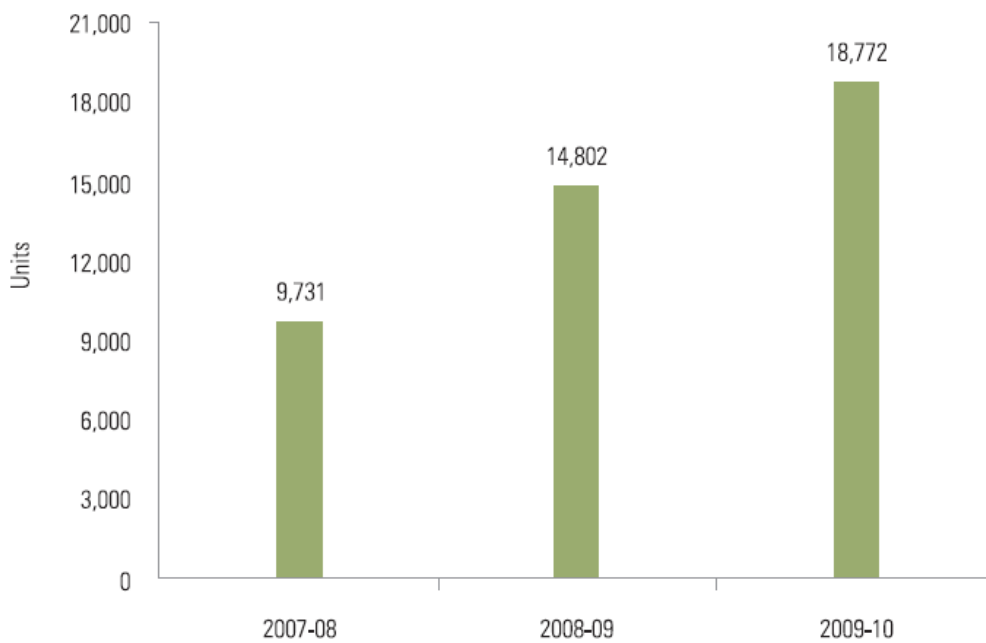
Automotive Mission Plan (2006-2016). Indian Government has identified Auto industry as "Thrust sector"

Rise in per capita Income

2001-02- Rs 17,980 to 2010- Rs 44,000

12.Increase in HNIs

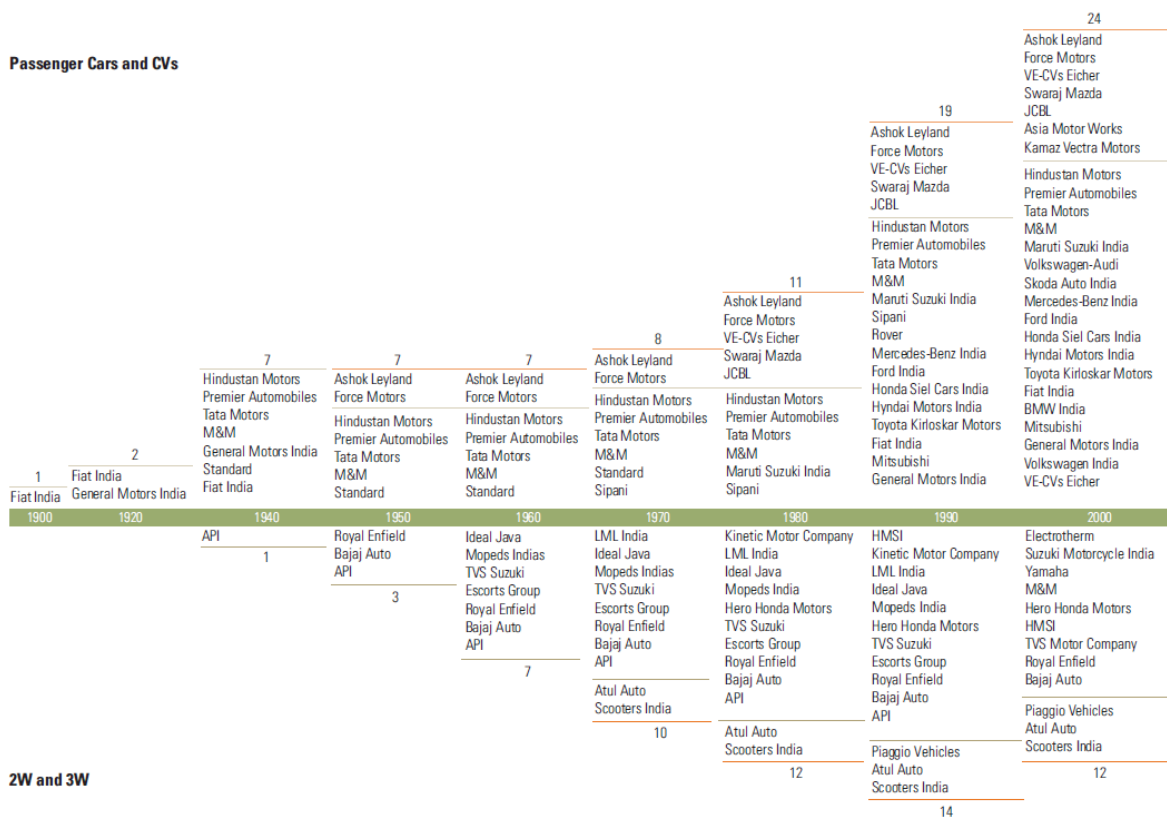
Figure 9: Luxury car sales



Source: SIAM, KPMG Research

Excise duty for small cars is 4%

Figure 11: Automobile Manufacturers'



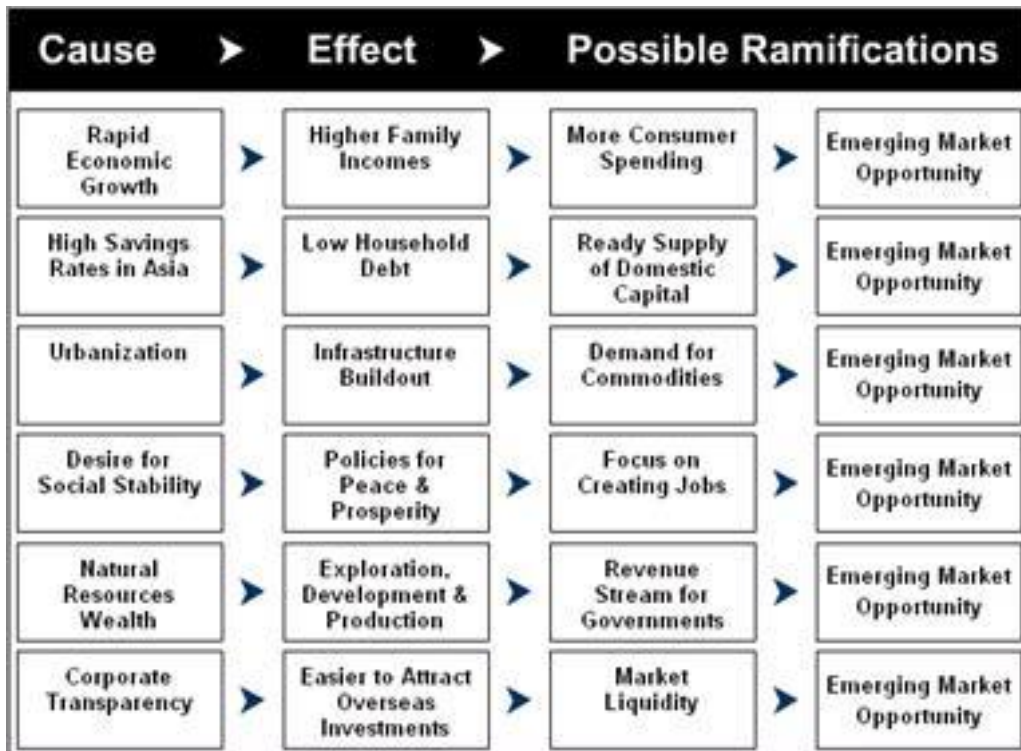
Source: SIAM, Company websites, KPMG Research

Strategic alliance between Japan & India

Once India signs a trade agreement with Japan, the auto parts imports will become cheaper. This will mean a tough competition for the local industry worth Rs 90,000-crore. According to this agreement, the 10 per cent duty of India, on the Japanese mufflers and fenders will be dipped within ten years. On the other hand, the five per cent levies on galvanized and hot rolled steel sheets will be dissolved within 5 years. The tariff on the diesel engines will decline to 6.25 per cent from 12.5 per cent over 6 years. It is also likely that the cheap imports of high-grade steel might also bring down the costs. The auto makers might forward the profit to the customers.

Urbanisation

By 2030, 590 million Indians will live in cities compared with 340 million in 2008. At least two of India's cities (Mumbai and Delhi) will be among the five largest cities in the world by 2030.



THREATS

Increasing price of fuel

Petrol price has been deregulated

Infrastructure

Inadequate and poor quality of road surface leads to increased Vehicle Operation Costs and also increased pollution. It has been estimated that improvements in roads will result in savings of about 15% of Vehicle Operation Costs.

Emission norms

BS IV is prevalent in 13 cities & BS III is prevalent in the country. The cost to manufacture BS IV compliant engines will result in price increase of commercial vehicles upto Rs 60,000

Pre-owned vehicles

Shriram Transport Finance Corporation accounts for 25% of the pre-owned commercial vehicle financing which has disbursed 3.5 lakh loans in last fiscal.

Increase in royalty

The royalty for using global partner's technology has been increased from 3.5% to 5% of total revenue. Eg. Maruti-suzuki.

Excise duty

The increase in the excise duty to 10% in the Union Budget did make an immediate impact on the automobile sector in India. Major automobile-makers – including Maruti Suzuki, Tata Motors, Honda, General Motors and Hyundai – have announced plans to raise the prices of their vehicles by up to Rs 41,000.

Union Finance minister Pranab Mukherjee has raised the Central excise duty by 2% to 10%, partially rolling back the cut made previously.

Increase in prices of raw material

Due to inflation, prices of iron ore, one of the main raw materials has risen.

The automakers in India on an average imports 75% of high-grade automotive steel for outer panels of cars and other vehicles. An import duty of 5% puts pricing pressure on the companies

The price of HR (Hot Rolled) Coil, which is the main input for many of these products, is now close to Rs 45,500 a tonne, a third increase since January this year.

Steel Authority of India Ltd (SAIL) and Essar Steel have increased prices by Rs 2,000-2,500 a tonne and this has had a direct impact on the country's largest car-maker, Maruti. The company is implementing a price hike between Rs 1,000 and Rs 10,000 across its models. "The A-star and Ritz will now cost Rs 1,000 more, while the Estilo will become costlier by Rs 2,500, the Omni by Rs 3,000, the Swift by Rs 3,750, the DZire by Rs 7,000 and the SX4 by Rs 9,000," said the company, attributing its revision to increasing input costs

BCG Matrix for Maruti Suzuki

Car market leader Maruti Suzuki India Limited sold a total of 1, 12,554 vehicles in November 2010. This includes 10,051 units of exports. The

company had sold 87,807 vehicles in November 2009. For the second consecutive month, the company crossed 1 lakh unit's sales mark in the domestic market in November 2010 with 1, 02,503 units. In November 2010, the sales in A2 segment grew by 32.2 per cent while in the A3 segment the sales growth was 27.2 per cent, as compared to November 2009. The sales growth in the C segment was 76.5 per cent over November 2009.

The sales figures for November 2010 are given below:

Strategic business Units considered are

A1-M800

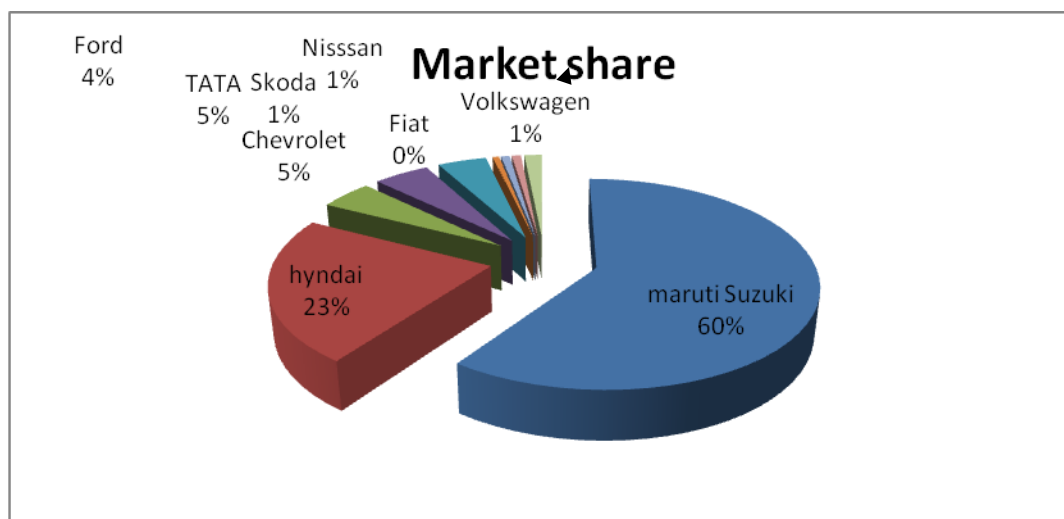
A2-Alto ,Wagon R, Zen , Swift, A-star, Ritz

A3- SX4 and D'Zire

B-MUVs Gypsy, Grand Vitara

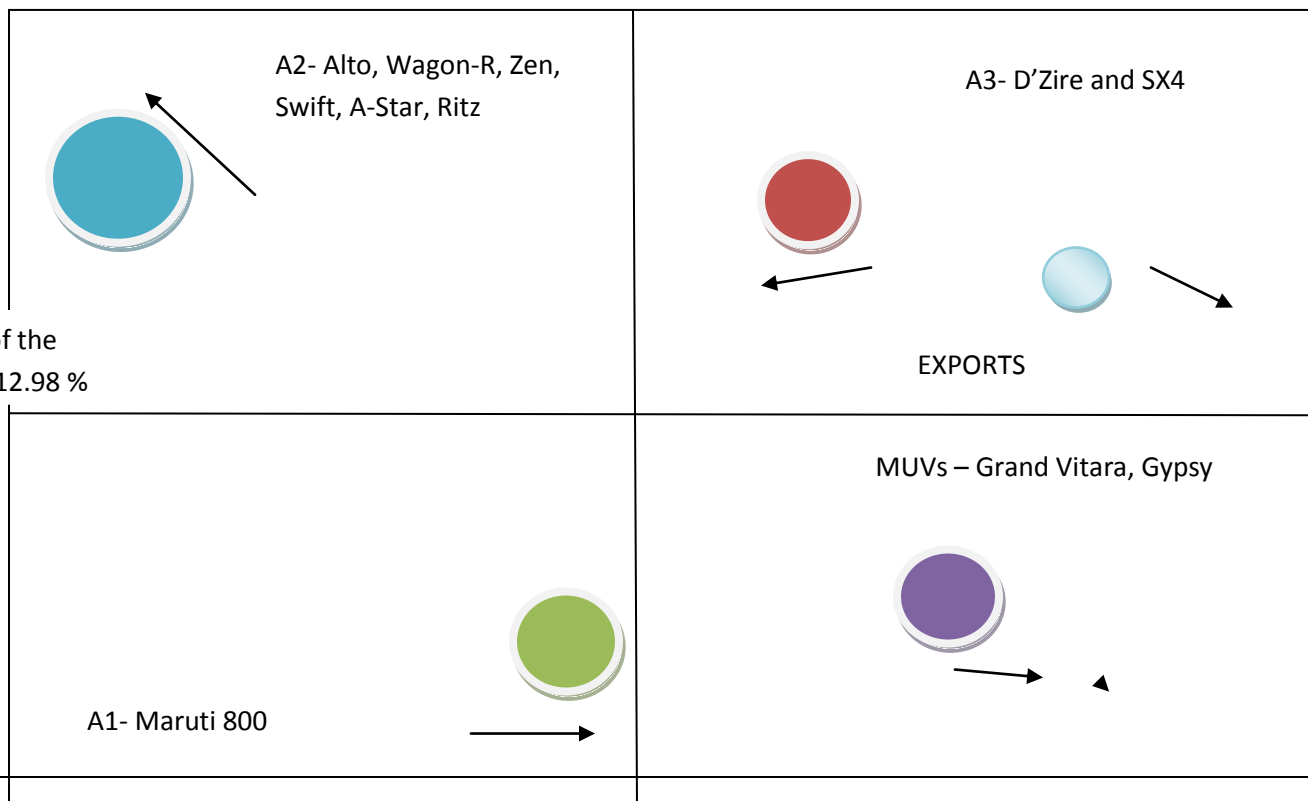
C- Vans Omni, Versa, Echo

E- Exports

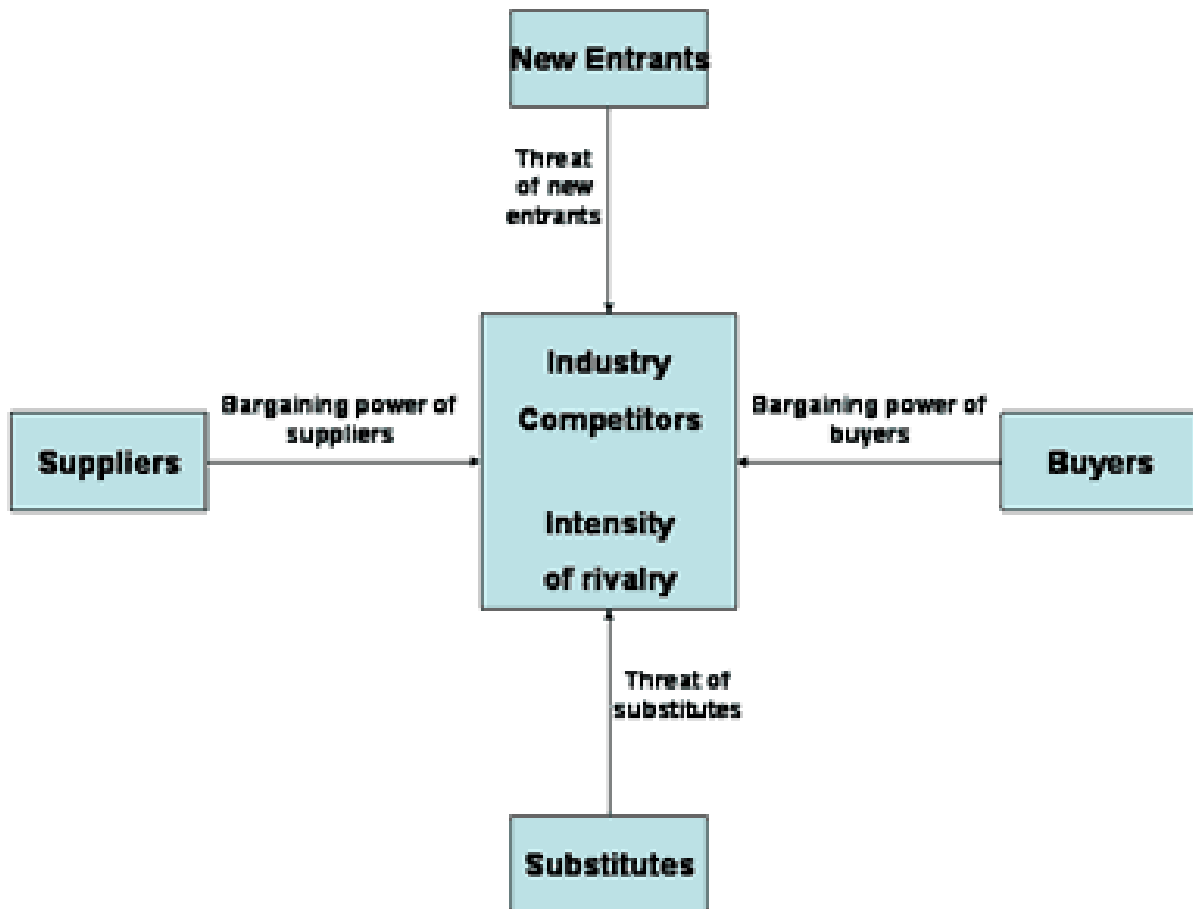


Segment	Models	In November	Till November	April'09
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		2010	2009	% Change	2010-11	2009-10	% Change	- March'10
A1	M800	2440	3040	-19.7%	17184	22020	-22.0%	33028
A2	Alto, Wagon-R, Zen, Swift, A-Star, Ritz	74063	56005	32.2%	521031	407271	27.9%	633190
A3	SX4, D'zire	11115	8741	27.2%	83056	61770	34.5%	99315
A: Total Passenger Cars		87618	67786	29.3%	621271	491061	26.5%	765533
B: MUV	Gypsy, Grand Vitara	199	253	-21.3%	4428	2576	71.9%	3932
C: Van Type	Omni, Versa, Eeco	14686	8320	76.5%	105182	60771	73.1%	101325
Domestic		102503	76359	34.2%	730881	554408	31.8%	870790
Export		10051	11448	-12.2%	97559	91731	6.4%	147575
Total Sales		112554	87807	28.2%	828440	646139	28.2%	1018365



Porter's five force model



New entrants

- Establish actual production of cars and not merely assemble vehicles;
- Bring in a minimum foreign equity of US \$ 50 Million if a joint venture involving majority foreign equity ownership;
- Indigenize components up to a minimum of 50% in the third and 70% in the fifth year or earlier from the date of clearance of the

first lot of imports. Thereafter the MOU and import licensing will abate;

- The existing loyalty to major brands (Tata motors) incentives for using a particular buyer, higher fixed costs, scarcity of resources, high costs of switching.

Bargaining Power of Suppliers

- The presence of very few suppliers of a particular product.
- Sometimes the product is extremely important to the auto-maker
- The alternatives proved to be very costly. In such cases the suppliers are in a better position to dictate terms.
- A lot of suppliers depended on automakers to buy their products. But if the automaker decided to change suppliers it would badly affect the supplier's role in auto manufacturing.

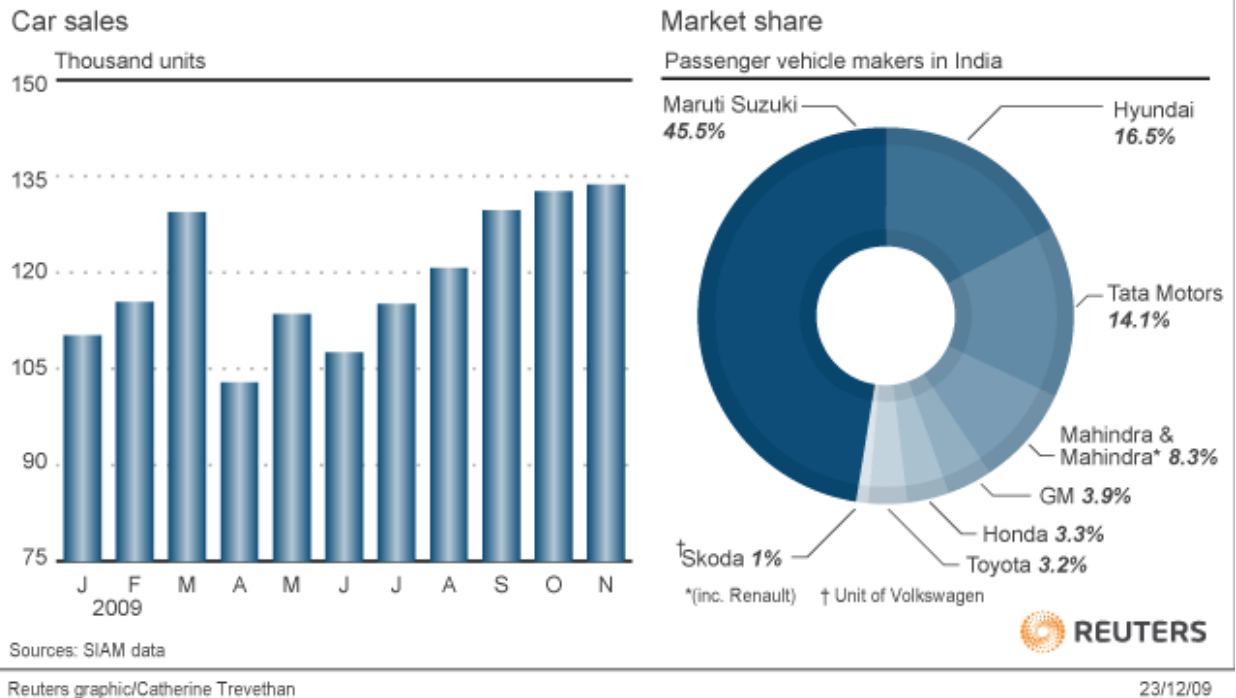
Power of Buyers –

- Small number of sellers, prevalence of alternative options, and price sensitive customers.
- Substitute availability.






Competitive Rivalry –

- The presence of many players of about the same size

India's vehicle market



- Little differentiation between competitors.

					Sponsored
	Chevrolet Spark LT 1.0 Airbag	Maruti Suzuki Swift LDi BS-IV	Tata Indica Vista Aura ABS Safire BS-III	Hyundai i20 1.2 Sportz BS-IV	Chevrolet Beat LT 1.2 Opt
					
Ex-Showroom Price ?	Rs. 4,29,336	Rs. 4,97,208	Rs. 4,28,538	Rs. 5,38,936	Rs. 4,64,704
Model Rating	★★★★★ 95 reviews	★★★★★ 241 reviews	★★★★★ 157 reviews	★★★★★ 121 reviews	★★★★★ 42 reviews

	More Details Get Price Quote Get quick loan	More Details Get Price Quote Get quick loan	More Details Get Price Quote Get quick loan	More Details Get Price Quote Get quick loan	More Details Get Price Quote Get quick loan
Features					
Air Conditioner	✓	✓	✓	✓	✓
Power Windows	✓		✓	✓	✓
Power Steering	✓	✓	✓	✓	✓
Anti-Lock Braking System	✓		✓		✓
Air-Bags (Driver Passenger)	✓			✓	✓ ✓
Leather Seats					
CD Player			✓	✓	✓
Specs	Chevrolet Spark LT 1.0 Airbag	Maruti Suzuki Swift LDi BS-IV	Tata Indica Vista Aura ABS Safire BS-III	Hyundai i20 1.2 Sportz BS-IV	Chevrolet Beat LT 1.2 Opt
Overall Length (mm)	3495	3760	3795	3940	3640
Overall Width (mm)	1495	1690	1695	1710	1595
Overall Height	1518	1530	1550	1505	1520

(mm)					
Kerb Weight (kg)	840	1065	1075	1065	965
Mileage Overall (km/liter)	13	14.84	12.9	12.4	13.5
Seating Capacity (person)	5	5	5	5	5
No of Doors	5	5	5	5	5
Displacement (cc)	995	1248	1172	1197	1199
Power (PS@rpm)	63@5400	75@4000	65@5500	80@5200	80@6200
Torque (Nm@rpm)	90@4200	190@2000	96@3000	112@4000	108@4400
Transmission Type	Manual	Manual	Manual	Manual	Manual
Gears	5	5	5	5	
Minimum Turning Radius (meter)	4.6	4.7			
Tyres	155 / 70 R13	165/80 R14	175 / 65 R14 (tubeless)	185/65 R14, Tubeless	155 / 70 R14

- Higher the competition in the industry lower would be the profit margin.
- To remain ahead in competition, auto-makers were tempted to offer value added services to the customers incurring more costs.

- Easy finance options and long term warranties were offered to lure the customers. But these measures cut into the profit margins.

Availability (threat) of Substitutes –

- If substitutes are available offering similar services, the likelihood of buyers switching over to another competitor depended mainly on the cost.
- The rising fuel price is bound to influence the buyers.

Barriers to entry –

- Economies of scale
- Brand identity
- Capital requirements
- Access to distribution
- Expected retaliation

5.0 IFAS

Strengths of Maruti Suzuki

1. Large sales network.

Maruti has 802 dealers in 555 cities in India as of March 2010. The sales network added 121 outlets to reach 802. The number of cities covered increased from 454 to 555.

2. Large number of Authorized service stations.

Maruti Suzuki has 2,740 workshops (including dealer workshops and *Maruti Authorized Service Stations*) in 1,335 towns and cities. It has 30 Express Service Stations on 30 National Highways across 1,314 cities in India. Similarly 127 more dealer service workshops were activated. The total cities covered went up from 1314 to 1335.

3. To setup stockyards in four zones of India.

A sum of Rs.200 crore is been set aside and a land of almost 25 acre has been set aside per stockyard. It will also reduce the working capital requirement of the dealers to stock too many vehicles.

4. Good number of engineers in the R & D section.

The total numbers of engineers in 2009-10 are 958 compared to 730 in 2008-09. The recruitment was almost doubled from 2007-08 in 2008 – 09. The Company started work on building an additional capacity of 250,000 cars per year, at Manesar. As part of the efforts to build an R&D capability, 700 acres of land were procured for a world class proving ground at Rohtak. The number of design engineers increased to 958, as planned.

5. Maruti Suzuki was benefitted from the production and export of small cars.

Most European countries announced generous incentives to the public to replace their old cars with new ones. Small, fuel efficient cars exported from India benefited from this opportunity.

6. Optimum sales in the current year.

Present installed capacity: 12, 00,000 units (1.2 million units).

Total sales: This comprised of 870,790 cars in the domestic market (growth of 21%) and 147,575 in the export market (growth of 111%).

7. Very efficient CRM.

The Company was rated first in customer satisfaction (post sale service) for the tenth year in a row in the annual survey by JD Power Asia Pacific. The

Company was also awarded the JD Power Award for the highest Sales Satisfaction in India.

8. Being environmentally conscious.

- 1st to set up effluent treatment facilities way back in 1984, when there was no legal requirement.
- 1st Indian automobile company to go for ISO 14001 certification in 1999.
- 1st to use natural gas for power generation at its captive power plants.
- 1st to introduce factory fitted LPG and CNG cars.
- 1st to launch cars complying with Bharat Stage-IV emission norms.
- 1st to voluntarily disclose fuel efficiency of cars at dealerships.

9. Transportation and Inventory carrying costs are kept to a minimum.

Around 86% suppliers (by value) are located within a radius of 100 km of our manufacturing facilities thus reducing transportation and inventory carrying cost.

10. Importance of training at the shop floor level.

Skill and capability development at all levels is the next important enabler. Associates on the shop floor had about 43,000 man-hours of training in the year at the Company's technical training center. They follow Suzuki Production System which is based on the Japanese innovations.

11. Favorable inventory turnover ratio.

Inventory turnover ratio is the computed by dividing the cost of goods sold by the average inventory. The inventory turnover ratio of the Company has increased from 16.7 in 2008-09 to 21.2 in 2009-10.

12. Maruti to use high strength steel.

Maruti Suzuki would start using high strength steel in a majority of its cars in India by 2012. This will not only reduce the carbon emission but also the weight of the vehicle. High strength steel with less thickness will result in less fuel consumption of a vehicle and will ultimately reduce carbon dioxide emission. Maruti has gradually started using high strength steel instead of normal steel in the A Star that has reduced the carbon emission to 109 mg per km from 150 mg per km. This high strength steel is used in floor and chassis of the vehicle which also reduces weight of the car by 120 kg. The use of high strength steel would result in jacking up input cost by 15-20%.

13. High sales in November 2010.

Maruti Suzuki had more than double sales in November 2010 over its closest competitor Tata Motors in the domestic market. Maruti had sales of 1, 12, 554 vehicles in November 2010. This includes 10,051 units of exports. Whereas the combined might of Tata and Fiat could just muster 16,365 nos. (15,340 Tata + 1,025 Fiat) in the domestic market in November 2010.

14. Better communication from the middle level management to lower level and upper level management.

The Company is adopting initiatives like 360 degree feedback for middle management, tea group meetings with MD and top management and Stay-Interview to take this openness to a still higher level. This translates to better speed, responsiveness, commitment and people excellence.

Strengths of Mercedes Benz

1. The brand name itself has been the major strength of Mercedes.

Mercedes-Benz has regained the top position in the AutomarxX brand ranking of ADAC, the world's second largest automobile club, making it Germany's best automotive brand. Mercedes-Benz is the most successful automotive brand since AutomarxX was introduced in 2001, capturing first place a total of 12 times and beating its competitors in more than half of all the rankings.

2. Possessing a Mercedes Benz is a social status symbol.

The statement has been there for quite some time now. Especially in the sub-continent, possessing a Benz has been a matter of pride.

3. V8 is improved and is stronger than before.

It has a 15 percent smaller displacement (4663 cc rather than 5461 cc) but generates 435 hp.

4. Continued good performance mainly driven by higher volume and cost improvements.

Sales increase in all core markets. The core markets of Mercedes have been traditionally Germany, Western Europe and USA, but the rest of the world and China in particular have shown tremendous growth in terms of sales of Mercedes Benz.

Unit sales	Q3 2010	Q3 2009	% change
Total	317,496	271,917	+17
Western Europe	153,505	154,739	-1
Germany	73,481	73,378	+0
United States	55,796	48,610	+15
China	40,748	17,011	-140
Other markets	67,447	51,557	+31

5. Q3 has been good for Mercedes Benz.

The third quarter of 2010 has been good for Mercedes Benz; The Company sold 475,000 cars and commercial vehicles worldwide. This can be attributed to the fact that the world has started recovering from the global financial downturn. The car division of Mercedes Benz sold 317,500 units in Q3, registering a 17% increase from the previous quarter.

6. Mercedes Benz SLS AMG E-Cell.

Keeping the rising pollution levels in mind, Mercedes Benz has launched Mercedes Benz SLS AMG E-Cell. The SLS AMG E-CELL is evidence of the state-of-the-art development of an exciting super sports car featuring a zero-emission high-tech drive.



The car runs on high-voltage lithium-ion battery, it features a modular design with an energy content of 48kWh and a capacity of 40 Ah.

7. Extra employees employed by Mercedes Benz in India.

An addition of two hundred employees in Mercedes Benz India in the year 2010 saw the R & D strength of MBI rise to 500. The R & D center at Bangalore is the largest outside Germany. At the end of the third quarter of 2010, Daimler employed 259,943 people worldwide (September 30, 2009: 256,857). Of that total, 164,589 people were employed in Germany (September 30, 2009: 163,538).

8. India has emerged as a promising market for Mercedes Benz.

Mercedes Benz India has issued a press release stating that July 2010 was its best ever month since the time it entered India 15 years ago. The German car manufacturer sold no less than 521 vehicles in India in July 2010, beating arch rival BMW by some margin. The January-July 2010

numbers were equally good with Mercedes registering a growth of about 80% compared to the same period last year. The best selling Mercedes cars is the E-Class with 212 units. Mercedes was also able to sell 62 SUVs (GL and M-Class) last month which is a giant leap over what they managed to do last year (sold 140 units the whole of 2009). Furthermore last month a group of industrialists in Aurangabad, Maharashtra purchased 150 Mercedes Benz at a time.

9. TOUCHPOINT FUNCTIONALITY.

Touch Point is designed for the dealers to manage their own communication and marketing campaigns for their customers through a web-based portal to be made available. The dealer agrees to follow the rules for using the TouchPoint portal as posted on the portal. TouchPoint initially will have the following functionality, made available through the TouchPoint portal.

Weaknesses of Maruti Suzuki

- 1. Dependence of Maruti on Suzuki for component designs and so the payment of royalties is taking a heavy toll on Maruti's profit.**

In the fiscal ended 31 March, royalty payments to Suzuki Motor Corp. rose 47% to Rs1, 000.93 crore from Rs679 crore a year earlier. Maruti has been introducing at least one new model every year since 2003. Royalties are typically calculated as a percentage of net sales and derived from the use of an asset or a fixed price per unit sold of an item. Royalty as a percentage of net sales rose marginally to 3.5% from 3.3% a year ago. The upper limit on royalty as a percentage of net sales has been capped at 5% by the Reserve Bank of India. It's factored in after reducing the value of the imported content.

- 2. Very stiff competition by other companies in Maruti's stronghold i.e. compact car segment.**

	 MARUTI SUZUKI	 HYUNDAI	 TATA
MARKET SHARE IN COMPACT CAR SEGMENT	57.17%	23.93%	11.92%
INCUMBENTS' BEST-SELLING CARS	NO. SOLD: 221,458 PRICE: Rs 2.24-2.88 lakh  Alto	NO. SOLD: 75,769 PRICE: Rs 2.63-3.72 lakh  Santro	NO. SOLD: 112,045 PRICE: Rs 3.45-4.79 lakh  Indica (incl. Vista)
Compact car includes cars less than 4-metres long. Sales numbers are for January-November 2009 (Source: J.D. Power & Associates). Market share is for the under 4-metre segment for April-November 2009 (Source: SIAM). Prices are ex-showroom Delhi	NO. SOLD: 137,026 PRICE: Rs 3.12-4.26 lakh  WagonR	NO. SOLD: 126,515 PRICE: Rs 3.31-5.38 lakh  i10	NO. SOLD: 13,924 PRICE: Rs 1.15-1.72 lakh  Nano
	NO. SOLD: 96,539 PRICE: Rs 4.37-5.20 lakh  Swift	NO. SOLD: 31,122 PRICE: Rs 4.80-7.72 lakh  i20	

Other new competitors



FORD FIGO
 Price: Rs 3.6-4.6 lakh
 Launch: March 2010
 Hardware: 1.2-litre petrol engine with 75 BHP (brake horsepower), five-gear manual transmission. Will also have 1.4-litre diesel engine





NISSAN MICRA
 Price: Rs 4.5-5 lakh
 Launch: May 2010
 Hardware: 1.2-litre petrol engine with 70 BHP and a torque of 150 NM





VOLKSWAGEN POLO
 Price: Rs 4.5-5 lakh
 Launch: April 2010
 Hardware: 1.2-litre petrol engine with 80 BHP





CHEVROLET BEAT
 Price: Rs 4-4.5 lakh
 Launch: January 2010
 Hardware: 1.2-litre petrol engine with 80 BHP and torque of 108 NM; five-gear manual transmission



3. Emergence of china in the automotive sector.

In terms of target markets, bidders from China mainly source overseas automotive assets in North America, UK & Ireland and South East Asia, with the three regions collectively counting for 53% of overall acquisitions by volume. In recent years however, the value of outbound acquisition activity has been relatively concentrated in the Germanic, South Korean and Australasian markets, together which comprise 80% of all outbound Automotive M&A flows by value. They have mainly acquired these foreign companies to secure a share in the foreign market and bring home the technical knowhow of these foreign companies.

Ranking	Announced date	Status	Target company	Target sector	Target country	Bidder company	Bidder location	Seller company	Seller country	Deal value (US\$m)
1	Aug-05	C	SAIA-Burgess Electronics Holding AG	Automotive	Switzerland	Johnson Electric Holdings Limited.	Hong Kong			600
2	Oct-04	P	Ssangyong Motor Company Limited (49.00% stake)	Automotive	South Korea	Shanghai Automotive Industry Corporation (Group)	China	Ssangyong Motor Company Limited (Creditor Group)	South Korea	500
3	Dec-06	C	Repco Corporation Ltd (Formerly Automotive Parts Group Limited)	Automotive	Australia	Unitas Capital Ltd	Hong Kong			435
4	Mar-09	P	Delphi Corporation (Global Suspension and Brakes business)	Automotive	USA	Beijing West Industries Co Ltd	China	Delphi Corporation	USA	100
5	Jul-05	C	MG Rover Group Ltd	Automotive	United Kingdom	Nanjing Automobile (Group) Corporation	China			87
6	Sep-05	C	Benelli SpA	Automotive	Italy	Qianjiang Group	China	Fineldo SpA	Italy	73
7	Sep-08	P	Midsouth Holdings Ltd (24.88% stake)	Automotive	Singapore	Zhong Nan Holdings Limited	China			46
8	Sep-07	C	Copperweld Bimetallics LLC	Automotive	USA	Fushi International, Inc.	China			23
9	Dec-06	C	Lawrence Automotive Interiors Ltd	Automotive	United Kingdom	Hua Xiang Group	China	Magna International Inc	Canada	21
10	Jun-05	C	NMPC (50.00% stake)	Automotive	Canada	Baosteel Group Corporation	China	Court Group	Canada	15

4. Maruti is not well known for premium sedans or fast sleek cars, more known for cars of a particular segment.

The sales figures for November 2010 are given below:

Segment	Models	In November			Till November			April'09 - March'10
		2010	2009	% Change	2010-11	2009-10	% Change	
A1	M800	2440	3040	-19.7%	17184	22020	-22.0%	33028

A2	Alto, Wagon- R, Zen, Swift, A-Star, Ritz	74063	56005	32.2%	521031	407271	27.9%	633190
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A: Total Passenger Cars		87618	67786	29.3%	621271	491061	26.5%	765533
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Domestic		102503	76359	34.2%	730881	554408	31.8%	870790
Export		10051	11448	-12.2%	97559	91731	6.4%	147575
Total Sales		112554	87807	28.2%	828440	646139	28.2%	1018365

5. Not yet made a successful and long lasting entry into developed markets of the World.

Poland, Finland, Iceland, Malta, Switzerland, The Netherlands, Algeria and Italy are among the few nations where Maruti exports entry level cars. Latin America, East Africa, South East Asia and the Oceania are among Maruti Suzuki's major buyers. It is somewhere missing out on bigger markets,

when the word is looking for economical cars rather than flashy muscle, exotics and tuners.

Weaknesses of Mercedes Benz

1. Annual reduction of employment, attrition is high.

	2005	2006	2007	2008	2009
Average annual number of employees				296,109	277,771
				271,704	274,332
					258,628

2. Apart from China, Mercedes Benz has incurred losses everywhere else in 2009.

Even in Mercedes strong hold i.e. Germany and the USA, it has registered decline in revenue generated.

	2009	2008	2007	09/08
Amounts in millions of €				% change
Revenue	78,924	98,469	101,569	-20 ¹
Western Europe	36,458	46,276	49,753	-21
thereof Germany	18,788	21,832	22,582	-14
NAFTA	19,38	23,243	25,136	-17
thereof United States	16,569	19,956	21,846	-17
Asia	12,435	13,84	11,918	-10
thereof China	4,349	3,226	1,951	+35
Other markets	10,651	15,11	14,762	-30

No dividend was distributed in the year 2009.

3. Absence of entry level cars by Mercedes Benz.

Mercedes Benz has always been symbol of luxury and not been a car for the common man. It starts with a price tag of half a million USD.

4. Fuel economy of Mercedes Benz is quite low.

The fuel economy of several Mercedes Benz is well below the standard (Corporate average fuel economy). As a result they paid a sum of 30.66 million US\$. The cars that do not meet the standard have to pay a gas guzzler tax.

Note: Corporate average fuel economy is calculated using Harmonic mean and not just simple arithmetic mean.

6.0 Generic Strategies

The generic competitive strategy, Maruti Suzuki is currently using is "Cost leadership". This strategy is lower cost competitive strategy that aims at the broad mass market and requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions.

The generic competitive strategy of Mercedes-Benz is "Differentiation". This strategy is aimed at broad mass market and involves the creation of a product that is perceived throughout its industry as unique

It is not enough to be just the lowest-cost competitor as it can be imitated by other competitors in a dynamic market like auto industry. So, it is essential for Maruti-Suzuki to replace its successful products with the next generation of products before competitors can do so.

Toyota & Honda have managed to adopt both cost leadership & Differentiation strategy and also have been successful.

Corporate strategy

Expansion:

Vertical growth can be achieved by taking over a function previously provided by a supplier or a distributor. Horizontal growth can be achieved by expanding its operations into other geographic locations and by increasing the range of products offered to current markets.

Mercedes Benz has followed vertical growth in case of establishing its own paint shop by investing Rs 200 crores. This decision comes in the wake of its aggressive plan to double its production capacity from 5,000 to 10,000. Earlier it used the paint shop facility of Tata Motors.

Mercedes Benz must adopt horizontal growth and launch its hatch back in developing markets like India & other BRIC countries.

Mercedes Benz must develop compact SUV to counter stiff competition from BMW & Audi.

Maruti-Suzuki is already a cost leader so now it must focus on expansion. We suggest horizontal growth rather than vertical growth for Maruti-Suzuki. Maruti must concentrate on advanced technologies for hybrid, electric vehicles so that it can use its network and expertise in current market to the full extent.

Maruti must concentrate on entry level sedan priced at sub 5 lakh as the average disposable income has increased and also the per capita income has increased to Rs 44,000 from Rs 17,980 in 2001-02.

Maruti must develop luxury sedan as the household income of 1.4 lakh households are more than Rs. 1 crores. There is potential for exporting the luxury cars to other developing countries also.

Maruti-Suzuki should emphasize on youth and women and come out with cars specifically designed for them. They can launch existing models with an automatic version.

International Entry

Maruti- Suzuki has a very strong presence in Asia, now they have to look for other markets in Europe, Latin America and other African countries.

Strategic alliance

Maruti-Suzuki has entered into an agreement with Volkswagen to design and develop small car for India and also to export.

Maruti-Suzuki must establish partnership with premier academic institutions like IISc, NID, IITs etc and provide opportunity for youths to unleash their creativity by designing both interior and exterior of cars.

Concentric (related) diversification

Establish Workshop On Wheels to cater to the customers 24x7 at any place (Carnation). With the growth plan to increase the volume of sales the service part has also to be taken care.

Retrenchment

Maruti-Suzuki must phase out maruti-800 which has been in production since 1983 to enable advanced technology cars to take the centre stage and compete with European and other Japanese counterparts.

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