

Introduction

CHAPTER – 1

Introduction

"A product is something made in a factory; a brand is something that is bought by the customer. A product can be copied by a competitor; a brand is unique. A product can be quickly outdated; a successful brand is timeless." - Stephen King, WPP Group, London

When brand recognition builds up to a point where a brand enjoys a critical mass of positive sentiment in the market place it is said to have achieved "Brand franchise".

Brand franchise being one very important aspect of brand management and a term that portrays a picture larger than brand loyalty, it needs to be studied in-depth to understand its impact on other variables of marketing and factors to be considered while carrying on brand building exercises.

Creating a brand is a necessity of modern business. The intangible value of brands frequently exceeds the tangible value of companies. People sometime choose one brand over the other simply because of its goodwill in the market.

The psychological aspect of a brand referred to as the brand franchise is a symbolic construct created within the minds of people and consists of all the information and expectations associated with a product or service.

It is important to bear in mind that you cannot please every customer in the marketplace. In fact, attempting to make you or your product 'all things to all people' will only result in a vague, diluted and rather weak branding. Whereas, clearly defined branding differentiation, based on what your most valuable customers desire, need and generally value the most will result in strong branding and sales.

As explained by Jack Trout in his book "Big Brands Big Troubles"- When you try to do all things to all people, you inevitably wind up in trouble. Thus rather be strong somewhere then be weak everywhere. This explains why a company cannot be strong in every segment of the market; it has to choose the segment that best fits its product and try to please the customers in that segment particularly.

Companies some time fail to build brand franchise due to financial objectives, setting short term objectives, not given enough information to construct strategic objectives etc.

Learning more about the customers' perceptions and future society trends can help us to create relevant brand propositions. A recurring challenge for brand managers is to build a consistent brand while keeping its message fresh and relevant. Corporate objectives must be broad enough that brands with high risk products are not constrained by objectives set with cash cows in mind

On the canvas of the Indian Economy, Auto Industry occupies a prominent place. Due to its deep forward and backward linkages with several key segments of the economy, automotive industry has a strong multiplier effect and is capable of being the driver of economic growth.

Unlike the 1990s, car is no longer a luxury product. While affordability has risen, car prices have fallen over a period of time. Companies are wooing middle class to buy compact cars. Along with growth in income, the rise of middle income class was one of the prime reasons for strong growth in the last six years. This middle and high income group is expected to grow from 350m in 2007 to 600m in 2015 (NCAER). Although in the long term we view India as a structurally strong growth story.

The automotive sector is one of the core industries of the Indian economy, whose prospect is reflective of the economic resilience of the country. With 4% contribution to the GDP and nearly 5% of the total industrial output, the automotive sector has become a significant contributor to the exchequer. Economic liberalization by the government of India has resulted in making India as one of the prime business destination for many global automotive players.

Today, it is amongst the main drivers of growth of Indian economy with an output multiplier of 2.24(for every Re.1 invested, auto sector gives back Rs.2.24 to the economy).

In the recent years, India has emerged as one of the major bases for manufacturing small passenger cars. At present the Indian automotive industry boasts of being the 3rd largest manufacturer of small cars.

Due to this tremendous growth in the passenger car industry numerous national and international companies have brought multiple brands under their umbrella catering to various segments in the industry. From 1980 till now the market has grown with over 20 manufacturers and hundreds of models and variants.

Although the growth was not sudden or easy Indian auto industry has grown over the years to get its rightful and deserving place in the world. It took a lot of hard work and belief from our visionary leaders, both from automobile industry as well as government, in making India auto industry 2nd fastest growing auto industry in the world.

Indian car industry on the threshold of a major explosion.

Stunning Growth Rates!

Table 1.1: Vehicle production growth in India from 1951 till 2010

| Vehicle Production | | | | | | |
|---------------------|-----------------------|-----------|-----------|-----------|-----------|-----------|
| Category | Production statistics | | | | | |
| | 1951-55 | 05-06 | 06-07 | 07-08 | 08-09 | 09-10 |
| Passenger Vehicles | 6 | 13,09,300 | 15,45,223 | 17,62,131 | 14,37,323 | 15,61,776 |
| Commercial Vehicles | 23 | 3,91,083 | 5,19,982 | 5,45,176 | 4,12,512 | 3,26,542 |

Source: Autocar India may 2010

Analysis and interpretation of table 1.1

What is clear from table 1.1 is the tremendous growth in vehicle production capacity of India from early 50's till 2010. Indian markets have come a long way from producing less than 30 vehicles in a year till what revolutionary changes it has witnessed in past few years.

The Indian car market continues its bullish run. August 2010 was the best month ever - in the history of the industry - with 160,794 passenger cars sold, a whopping 33% increase over the 120,681 sales tally of August 2009. For the record, July 2010 sales were 19,49,776. The upcoming Diwali season will boost the sector even more.

The Indian automobile industry is currently experiencing an unprecedented boom in demand for all types of vehicles. Indian Market Analysts are jubilant over the fact that India has the fastest growing automobile industry (passenger cars segment) in the world today. From producing 6 cars in 1951 to reaching a figure of 19,49,776 in 2009-2010 has been a long journey. India is being recognized as potential emerging auto market. Foreign players are adding to their investments in Indian auto industry. Indian passenger vehicle market is dominated by cars (79%).

India is the fourth largest car market in Asia - recently crossed the 1 million mark.

SIAM had forecast that passenger vehicles sales to grow around 13 per cent this fiscal, which is now witnessing a growth of around 30 per cent.

India has become the seventh largest vehicle producing nation in the world, six years ahead of the set target. The Auto Mission Plan (AMP) in 2006 had projected India to become the seventh largest vehicle producing country in the world by 2016.

AMP has forecasted that by 2020 India will be among top five vehicle producers. It expects the domestic consumption to grow four folds to \$120 billion by 2020.

The country has been marked out as an emerging market on the global level. General Motors and Toyota have already setup car plants, while Hyundai is planning a truck plant.

With various car manufacturing companies setting up their units in different parts of the country, the production of the cars will increase at a very fast rate. The car statistics indicate that India will soon become one of the top 10 car manufacturing countries, leaving behind the U.K.

The last six years can be called a golden period for car sales; strong GDP growth and easy credit at low cost led to double-digit growth.

With new strategies being implemented and more investments being made in Indian automotive industry the production as well as the domestic sale and exports will increase substantially.

The emergence of global automobile biggies to India has made the government to take notice and sit up so as to drive more investments into this sector. The ministry of heavy industries has recently announced a 10-year mission plan (Automotive Mission Plan 2016) to make India a global hub for automotive industry.

Indian automotive market is also flooded with lots of foreign cars.

A business has to understand the dynamics of its industries and markets in order to compete effectively in the marketplace. In addition to rivalry among existing firms there are outside factors also that have their influence on the industry and its entities. Threat of new entrants into the market, the forces of supplier power, the power of the buyers, and the threat of substitute products or services are the factors that Porter (1980a) defined as forces which drive competition, contending

that the competitive environment is created by the interaction of these five different forces acting on a business.

As Porter's 5 Forces analysis deals with factors outside an industry that influence the nature of competition within it, the forces inside the industry (microenvironment) that influence the way in which firms compete, and so the industry's likely profitability is conducted in Porter's five forces model. Porter suggested that the intensity of competition is determined by the relative strengths of these forces.

We have done a Porter's Five Forces Analysis on the automobile industry in India. This is independent of any manufacturer. As such, it applies to every Indian car manufacturer. Porter's five force exercise explores five principal industry factors to determine the attractiveness of a given industry in a given market.

Five factors in porter's analysis are:

1. Threat of new entrants.
2. The bargaining power of buyer's \ customer.
3. The threat of substitute products.
4. The amount of bargaining power suppliers have.
5. The amount of rivalry among competitors

1. The threat of new entrants:

In most markets, the capital and expertise needed to setup an automobile or parts manufacturing facility would be a great enough barriers to entry to prevent many new entrants from setting up.

However, given India's incredible growth forecasts, infrastructure progress (especially new and better roads), and ever-expanding financing options to rural residents, the market is attractive. As such, we expect the threat of new entrants to be high.

2. The bargaining power of buyers/customers:

Buyers in India have a wide variety of choice. There are more than 20 foreign manufacturers selling in India (including ultra high-end such as Rolls-Royce and Lamborghini). Of course there are also a plethora of incredibly cheap choices, like the famous Tata Nano.

3. The threat of substitute products:

India is famous for its two-wheelers (bikes and mopeds) and three-wheelers. Two wheeler market is expected to grow to 30mn by 2020 (SIAM).

Especially in rural areas due to low acquisition, maintenance and running cost two and three wheelers have been very successful and show good growth prospects as well. These are very real and obvious threats to auto manufacturers.

4. The amount of bargaining power suppliers have:

Surge in automobile industry since the nineties has led to robust growth of the auto component sector in the country. In tandem with the industry trends, the Indian component sector has shown great advances in recent years in terms of growth, spread, absorption of new technologies and flexibility. Indian auto component industry has seen major growth with the arrival of world vehicle manufacturers from Japan, Korea, US and Europe. Today, India is emerging as one of the key auto components center in Asia and is expected to play a significant role in the global automotive supply chain in the near future.

It is likely that the suppliers to the manufacturers have considerable bargaining power. They are not held ransom by one single manufacturer as they can market their products to any of the others in India. With more than 20 manufacturers suppliers have a wide variety of options to select from and a good demand in the market.

5. The amount of rivalry among competitors:

Rivalry among the competitors is high. The industry is not yet in its shake-out phase and is still struggling to find the up-and-coming stars and possibly topple the leaders. Except for maruti who has been ruling the budget car segment since a long time no other manufacturer can be called market leader in any other segment.

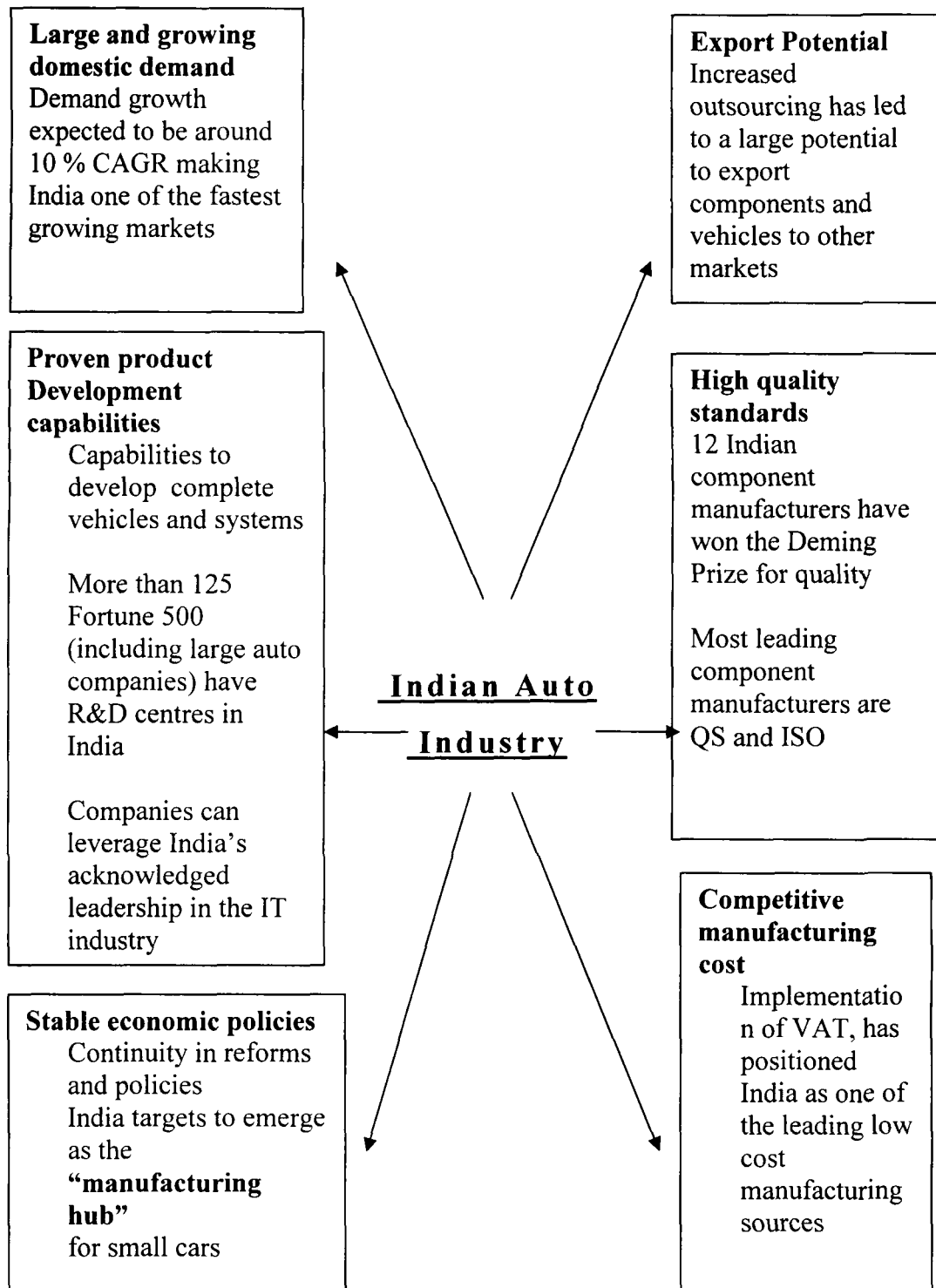
One look at porter's model will give a clear picture that in this given market where a manufacturer is facing high level of competition due to almost all the leading car manufacturers in the world have entered and are trying to establish themselves. Bargaining power with customers and suppliers is high due to wide variety of choices available with them.

In short all these factors go to prove that markets for manufacturers are extremely competitive, giving them with very little margin for error. Thus to sustain themselves they need to stand out in the crowd and should provide something new and unique to the customers to hold interest in their brand.

Paying more attention in building their brand and increasing their brand value pays off in these competitive scenarios. Brand franchise is an edge that can help companies to not only retain their present stake in the market but to expand their roots deep within the ground to hold themselves for a longer duration.

India's Advantage and business opportunities:

Figure 1.1: Attractiveness of the Indian automotive industry



Source: Compiled by researcher on the basis of secondary data

Analysis and interpretation of figure 1.1

Figure 1.1 is self explanatory. It has been designed for easy and quick understanding of Indian auto industry.

In a developing nation like India where disposable income with the middle class and upper middle class segment is fast increasing automobiles are no longer a commodity of luxury but it has become an indispensable part of our lives, an extension of the human body that provides us faster and more convenient mobility. Globally, it has been observed that as income levels rise, the share spent on food and groceries in the total household income declines and the proportion of income spent on lifestyle-related activities increases. India is no exception. India topped the 2006 AT Kearney Global Retail Development Index, indicating a sharp rise in spending on consumer durables, apparel, entertainment, vacations and lifestyle products. thus explaining the large and growing demand for automobiles in India.

India has advantage of highly qualified and trained manpower. India is a very big hub of engineers and IT professionals. This gives companies the required qualified staff needed to operate from a place. Our geographical spread and well developing infrastructure also facilitates the requirement for building production and research capacity.

India is also one of the most politically stable countries in the world. Our government policies and reforms have always encouraged manufacturers to make India their preferred choice of destination.

Indian companies too have become quality conscious and are working towards matching the internationally quality standards. Thus making it easy for foreign manufacturers to make base in India.

The Future Growth Drivers

1. Higher GDP Growth
2. India's huge geographic spread- Mass Transport System
3. Increasing Road Development
4. Increasing disposable Income with the service sector
5. Cheaper (declining interest rates) & easier finance Schemes
6. Replacement of aging four wheelers
7. Graduating from two wheelers to four wheelers
8. Increasing dispensable income of rural agri sector
9. Growing Concept of Second Vehicle in Urban Areas

Companies have a platform ready to manufacture and sell in India. In any given market even if the market is ready for the product it still is important for the manufacturers to have a plan of action to guide them to success. Without a strategic approach a company cannot sustain its initial success. Thus in order to maintain consistency and focus its important that a company develops a deep understanding of the market and its consumers to help it built a strong foundation for its growth and success.

Positioning your product in the right segment is one of the important features of marketing mix. Marketing & Promotional activities depend heavily on the positioning of the product. Once the target customers are known and their requirement is studied marketers try to promote their product as per the liking of the consumer.

If the product is wrongly placed it will not match the requisite of the target audience. Thus all the efforts made to draw the consumers to the product will go in wane and it will not give the manufacturer the desired result.

When one brand of a company is doing well in a particular segment manufacturer enjoys the trust & confidence of their customers which extends for the future launches of the company in that particular market. It builds a good platform for the company's new arrivals as it enjoys the trust and goodwill already created in the mind of the consumers.