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Re visioning scope of business in Indian market by Volkswagen Motors

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Abstract: *The growth Indian automobile industry has created ample opportunity for foreign car giants. Volkswagen entered in India with a little initial success. Volkswagen has struggled to raise its volumes in India, hurt by the overall slowdown in passenger vehicle sales, lower penetration in the growth segments and stiff competition. Volkswagen sales shows dip for last three years. Today they are trying to regain their sales by adopting newer business strategies. This article aims to understand the scope of business for Volkswagen Indian car market. It also analyses the need to revision its business strategy in Indian market.*
Keywords: *Volkswagen, stiff competition, scope of business, strategy.*

I. Introduction:

The Indian auto industry faced several restrictions obtaining licences for manufacturing plants, quantitative restrictions on imports, etc before the Auto Policy was implemented in 2002. The new policy ended the licence regime, abolished quantitative regulations and removed the minimum indiginesation level. The post Auto policy era resulted in tremendous growth for the industry owing to the various measures undertaken by the Indian government. After quantitative restrictions were abolished in April 2001, the Indian government continued to impose strictures such as minimum investments, compulsory indigenisation and export commitments. This prompted many multinational car manufacturers, with significant investments in India.

The Automotive Mission Plan 2006-2016 (AMP) launched in January 2007 articulates mid-term goals, with respect to auto and auto components sectors. AMP envisages that by 2016, India will be a favoured destination for design & manufacture of automobiles and automotive components in Asia. The output of the India's automotive sector is projected at $145 billion by 2016, doubling the contribution of the industry to the GDP to 10 per cent (from around 5 per cent in 2006) and providing incremental employment to 25 million persons.

II. Indian automobile Industry:

The Indian auto industry is one of the largest in the world with an annual production of 23.37 million vehicles in FY 2014-15, following a growth of 8.68 per cent over the last year.

The automobile industry accounts for 7.1 per cent of the country's gross domestic product (GDP).
The Two Wheelers segment with 81 per cent market share is the leader of the Indian Automobile market owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 13 per cent market share.

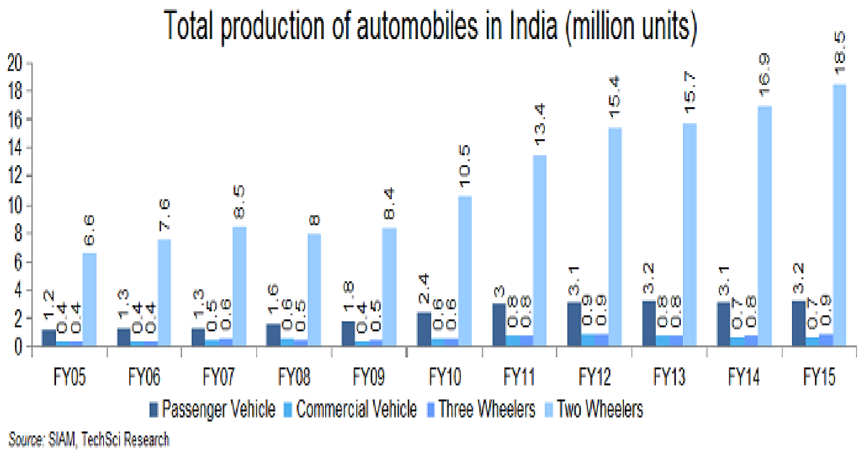
India is also a prominent auto exporter and has strong export growth expectations for the near future. In FY 2014-15, automobile exports grew by 15 per cent over the last year. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the Two Wheeler (2W) and Four Wheeler (4W) market in the world by 2020.

Market Size

The industry produced a total 14.25 million vehicles including PVs, commercial vehicles (CVs), three wheelers (3W) and 2W in April-October 2015 as against 13.83 in April-October 2014, registering a marginal growth of 3.07 per cent year-on-year.

The sales of PVs grew by 8.51 per cent in April-October 2015 over the same period last year. The overall CVs segment registered a growth of 8.02 per cent in April-October 2015 as compared to same period last year. Medium & Heavy Commercial Vehicles (M&HCVs) registered very strong growth of 32.3 per cent while sales of Light Commercial Vehicles (LCVs) reduced by 5.24 per cent during April-October 2015 year-on-year.

In April-October 2015, overall automobile exports grew by 5.78 per cent. PVs, CVs, 3Ws and 2Ws registered growth of 6.34 per cent, 17.95 per cent, 18.59 per cent and 3.22 per cent respectively in April-October 2015 over April- October 2014.



Investments

In order to keep up with the growing demand, several auto makers have started investing heavily in various segments of the industry during the last few months. The industry has attracted foreign direct investment (FDI) worth US$ 13.48 billion during the period April 2000 to June 2015, according to data released by Department of Industrial Policy and Promotion (DIPP).

Government Initiatives

The Government of India encourages foreign investment in the automobile sector and allows 100 per cent FDI under the automatic route.

Some of the major initiatives taken by the Government of India are:

- Government of India aims to make automobiles manufacturing the main driver of 'Make in India' initiative, as it expects passenger vehicles market to triple to 9.4 million units by 2026, as highlighted in the Auto Mission Plan (AMP) 2016-26.
- In the Union budget of 2015-16, the Government has announced to provide credit of Rs 850,000 crore (US$ 127.5 billion) to farmers, which is expected to boost the tractors segment sales.
- The Government plans to promote eco-friendly cars in the country i.e. CNG based vehicle, hybrid vehicle, and electric vehicle and also made mandatory of 5 per cent ethanol blending in petrol.
- The government has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020 to encourage the progressive induction of reliable, affordable and efficient electric and hybrid vehicles in the country.
- The Automobile Mission Plan (AMP) for the period 2006–2016, designed by the government is aimed at accelerating and sustaining growth in this sector. Also, the well-established Regulatory Framework under the Ministry of Shipping, Road Transport and Highways, plays a part in providing a boost to this sector.

Scope of research:

Volkswagen is not doing well in Indian Market for last three years. This paper aims at understanding need for re visioning scope of business of Volkswagen in Indian Market.

Data collection:

This paper is based on secondary data available through research articles, crisil research reports, news papers, magazines ect.

Volkswagen in India:

The Volkswagen Group India is a part of Volkswagen AG, which is globally represented by 12 brands from 7 European countries. 11 automotive brands: Volkswagen Passenger Cars, Audi, Bentley, Bugatti, Lamborghini, Porsche, Scania, SEAT, SKODA, Volkswagen Commercial Vehicles (Volkswagen Nutzfahrzeuge) and MAN; and 1 motorcycle brand: Ducati. An impressive line-up that prides itself as much in its quality of engineering, as in its depth of innovation.

The company strives to expand its business in India by targeting the Indian car market which is the 2nd fastest growing market in the world. This makes India a profitable location for the company and hence, the company has chosen India to serve its strategic purpose optimally.

Business Objective of Volkswagen

The company wanted to target the working population of India by generating awareness about its brand which could then be converted into brand loyalty. Volkswagen keenly wanted to work in the area of decision making of its brand lovers.

Scope of business in Indian market by Volkswagen:

Volkswagen has an installed capacity of 130,000 units at its plant in Chakan, Pune. The company plans to invest Rs 15 billion in India over the next 5 years to expand its manufacturing capacity to 200,000 units and also to set up a diesel engine manufacturing facility to increase localisation. The company has 118 sales points across 100 cities.

Volkswagen Group Sales India Ltd-(Sales

		2010-11	2011-12	2012-13	2013-14	2014-15
Cars						
Domestic Sales	(Units)	51,607	78,266	65,386	52,525	45,012
Sales growth	(Per cent)	n.m	52	-16	-20	-14
Domestic Market share	(Per cent)	2.6	3.9	3.5	2.9	2.4
Exports	(Units)	2	1,984	5,630	33,330	64,994
Exports growth	(Per cent)	n.m	n.m	184	492	95
Utility vehicles						
Domestic Sales	(Units)	3	6	86	3	6

n.m - not meaningful

Source: SIAM, CRISIL Research

Domestic sales declined by 14 per cent in 2014-15 as demand for all models declined. Exports, on the other hand, nearly doubled led by healthy demand for the *Vento* and *Polo*, which the company began exporting last year. The company last year started exporting the Vento to Mexico. In 2014-15, the company also started exporting Polo to Mexico.

The company is expected to launch a facelift of the Vento, *New Passat*, Beetle, and *New Taigun* over the next two years. The company also plans to develop a small car and a sub-compact sedan for the Indian market.

Volkswagen Passenger car models in Indian Market

Year	Models/Variants
2007	Passat
2008	Jetta, Touareg
2010	Beetle, Polo, Phaeton, Vento
2011	Passat (Variant), Vento (Variant)
2012	Jetta (Variant), Touareg (Variant)
2013	Jetta (facelift), CrossPolo (variant)
2014	Vento (facelift), Polo (facelift)
2015	New Cross Polo, New Jetta

Source: CRISIL Research

III. Key challenges in Indian Market

In India, local manufacturer Maruti Suzuki and foreign automakers Hyundai and Honda control over 70% of the passenger vehicle volumes. Automakers such as Volkswagen, Renault, Fiat and Ford have somewhat failed to grab additional shares in India, which is dominated by Maruti Suzuki with nearly half the passenger car volumes.

The domination of a handful of automakers in India is mainly due to the large popularity of entry-level compacts, which cater to first-time buyers. Almost one in two new cars sold is an entry-level compact, boosted by government incentives such as lower excise taxes for smaller cars and price-sensitivity of the lesser affluent customers. Volkswagen has positioned itself as a relatively premium brand, and thus doesn't compete in this high growth segment. Moreover, Volkswagen's sedan offerings such as Skoda Octavia and Superb and Volkswagen Vento haven't been able to compete strongly with models such as Maruti Swift Dzire and Honda Amaze. With high growth for entry-level compact cars, and strong brand recognition of Maruti, Hyundai and Honda, which have vast dealership networks across India, Volkswagen's sales could remain weak in the country, going forward. To turnaround this situation Volkswagen needs to revision it`s business strategy.

IV. Re visioning scope of business by Volkswagen:

Main challenge for Volkswagen is to increase market share in India. Volkswagen should accelerate its penetration in the country. As part of its mid-term strategy, the group announced that it will launch a new product every year in India starting 2015, and launched the new face lifted model of its Vento sedan recently. While protecting its relatively premium brand image, Volkswagen aims to enter high growth segments such as SUVs and compact sedans, rather than smaller hatchbacks. Although smaller cars still form bulk of the passenger car volumes in the country, rising sedan sales highlight how customers are looking to trade-in their smaller cars for larger sedans. With rising proportion and wealth of the middle-class population, coupled with lower current customer penetration for sedans compared to smaller cars, sedan volumes could grow at a steady pace in India, providing growth opportunity for Volkswagen.

In order to improve competitiveness, Volkswagen plans to invest around $250 million in India through the decade, to increase local content sourcing and production and introduce new models. Volkswagen aims to expand its production base in India, starting with building engines and gearboxes in the country itself. By further raising local production and content sourcing in India, the company will benefit from the lower manufacturing and operational costs in the country, expanding margins. Profitability could further and the automaker gains from economies of scale and higher profits on each incremental sale, due to its high fixed-cost base.

V. Conclusion:

Although the impact of increasing local production in India on the company's profit margins can't be accurately estimated, cost-effective production could improve the operating margins for Volkswagen's passenger cars, the least profitable division for the company. Though company is planning to launch new models, it still has a drawback in terms of service centers and quality of service. Volkswagen can regain its market share if they could revision their business strategy in terms of heavy discount on cars and service. Volkswagen has recently introduced an app with connects with phone and car which provides all the information about the car as well as service. They need to penetrate the market by opening more number of service centres.They need to train their staff to be more customer friendly. They need to give roadside assistance service within two hours. Thus after sales service is the only mantra for them to revision their business strategy.

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