

Automotive & Assembly Practice

The Indian automotive industry: From resilience to resurgence?

Indian automotive sales have shown resilience during the pandemic but have not returned to their pre-COVID-19 strength. What will it take to go from resilience to resurgence?

by Brajesh Chhibber and Nitesh Gupta



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Automotive is one of the core sectors of the Indian economy and, to a great extent, serves as a bellwether for its current state. An ominous fall in commercial-vehicle (CV) sales foretold impending economic challenges in both 2012 and 2019, while a steep rise in passenger-vehicle (PV) and two-wheeler (2W) sales was a harbinger of good economic news in 2010.

The manufacture of transport equipment accounts for 10 to 12 percent of the gross value added (GVA) within India's manufacturing sector.¹ Any decline in that area significantly hurts India's economic outcomes. Employment is also hard hit when vehicle sales fall, since the automotive sector provides 37 million direct and indirect jobs while stimulating job creation in other industries.

While the Indian automotive industry has faced many recent challenges, including the devastating COVID-19 pandemic, its growth potential is clear. In fact, the sector is expected to account for 65 million new jobs within India by 2026 as companies increase production.² To help domestic and

international players in India capture new opportunities as the market expands, we examined the current state of the country's automotive sector and identified imperatives and enablers for success.

Past challenges and the potential for growth in the Indian automotive industry

What started as a small fire in September 2018—a dip in sales of CVs after the regulatory change in the axle-load norms—turned into a full-blown conflagration, at a scale not experienced in the last two decades, as fundamental economic challenges roiled the Indian automotive industry. Credit availability fell, demand slowed (especially in infrastructure and mining), and discretionary spending dropped, all of which contributed to a decline in auto sales. In early 2020, just as the industry was expected to recover, the COVID-19 pandemic introduced challenges that hurt demand and interfered with the automotive industry's deeply intertwined supply chains.

Despite the ongoing challenge of COVID-19, the Indian automotive industry seems to be overcoming most of its challenges, and many are now in the rearview mirror.

¹ As reported by the Reserve Bank of India and the Government of India.

² National Automotive Mission Plan 2016–26 (AMP 2026), Government of India and the Society of Indian Automobile Manufacturers.

More recently, however, the situation has looked brighter. In late 2020, government travel restrictions eased, India's harvest was good, and the festive season stimulated demand in some high-volume segments. Both 2Ws and PVs showed a recovery in month-over-month sales during that time (exhibit).³

new tailwinds, such as global supply-chain rebalancing, government incentives to increase exports, and technology disruptions that create white spaces. These developments will help create opportunities at all levels of the automotive value chain.

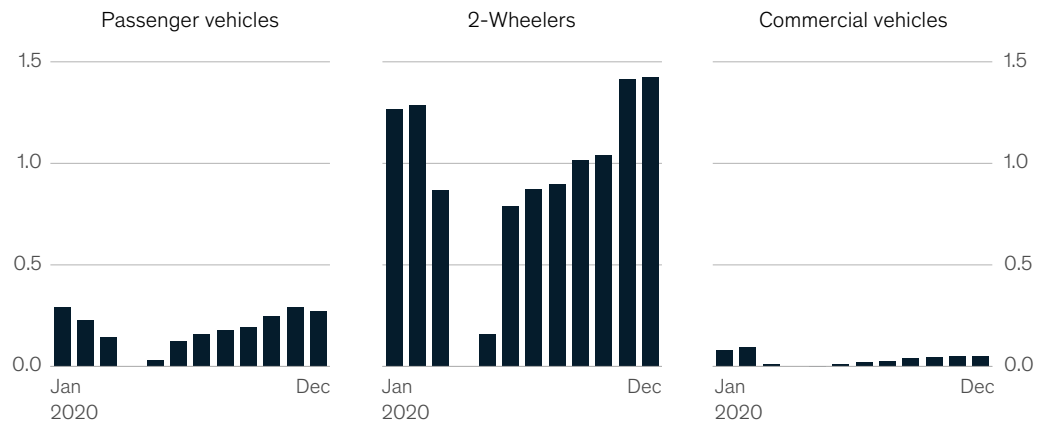
Despite the ongoing challenge of COVID-19, the Indian automotive industry seems to be overcoming most of its challenges, and many are now in the rearview mirror. The sector is also benefiting from

Industry participants are now beginning to see a clear highway, where they can push on the gas, accelerate, and go into a higher gear. From our research, we have distilled a set of imperatives and

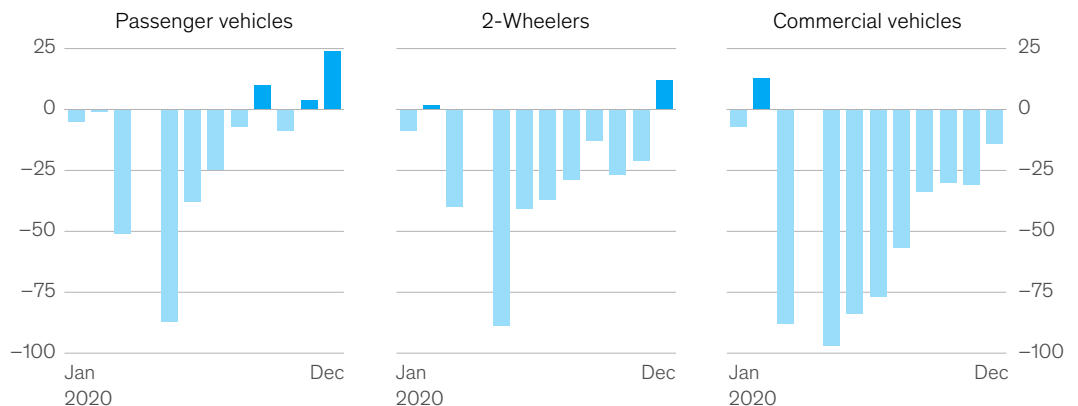
Exhibit

The Indian automotive sector is demonstrating early signs of recovery.

Automotive retail sales in India, millions of units



Automotive retail sales in India, year over year, % change



Note: Sales for March 2020 reported from Society of Indian Automobile Manufacturers (SIAM) as Federation of Automobile Dealers Associations (FADA) did not release registration numbers; sales for April 2020 were near zero.
Source: FADA; Reserve Bank of India; SIAM; Thomson Reuters/Ipsos PCSI Employment Confidence Sub-Index; expert interviews; press search

³ VAHAN (Ministry of Road Transport & Highways, Government of India).

enablers that industry participants must understand as they attempt to fast-track their value-creation trajectories.

Imperatives for the Indian automotive industry

Three imperatives are crucial for successful companies: pursuing growth, increasing resilience, and striving for leadership by promoting disruptive trends.

Focusing on domestic, international, and downstream growth

Growth is oxygen for any business, more so if the industry is coming out of a challenging phase. For that reason, players in the Indian automotive industry should consider pursuing all promising opportunities.

The domestic market. While first-time buyers have long dominated the Indian automotive market, the focus is shifting to repeat customers. With the government bringing out a revamped scrappage policy, the resale market may become even more important. If automakers want to concentrate on repeat buyers, they must develop new strategies to facilitate the resale of existing vehicles across categories. Already, some start-ups have attempted to simplify and improve the process of buying and selling used cars. If automakers proactively shape the resale landscape, they could help revive urban demand.

Indian automotive players should also attempt to bring value-seeking customers back into the market. This segment shrunk because the Indian government's Bharat Stage VI emissions norms increased prices by about 7 to 9 percent for 2Ws and 3 to 5 percent for cars. To lower the upfront cost of owning a vehicle, automakers should consider embarking on a new wave of productivity transformation.

Automakers can innovate by creating alternate ownership options for prospective customers. Simultaneously, they can open additional avenues for new customers to enter the market. Some automakers now offer leasing options, especially

in the PV segment, but their offerings have narrow limits for vehicle type, lease duration, and other features. As millennials' mobility needs evolve and move away from direct ownership, the development of better leasing options will become imperative within the domestic market.

With digital channels gaining popularity among India's consuming classes, automakers must develop direct-to-customer options. A best-in-class digital and analytics transformation can also help leaders differentiate themselves from the competition.

International opportunities. International markets, especially those in Africa that are similar to India, are experiencing a rise in per-capita GDP and reaching the levels at which automotive sales tend to expand significantly. Indian companies have already navigated this transition at home and can follow the same script to succeed in international markets. By expanding internationally, Indian automakers will increase growth and sales volumes while diversifying risks and reducing demand cyclicality.

When expanding internationally, Indian automakers will not have to start from scratch. Their brands already have a strong global presence in certain segments, such as 2W and 3-wheeler (3W), and they have learned from this experience. Indian products, with their high customer value and functional quality, are likely to offer a strong fit for emerging-market customers. Traditionally, Indian automakers have only pursued international opportunities sporadically. Now, however, they should double down on select international markets and invest in expanding their brand, distribution, and service reach to build a lasting franchise.

This may be the best opportunity for Indian automotive suppliers to expand internationally in decades because of recent tailwinds. As global automakers rebalance their supply chains, they are looking for sourcing hubs outside China. Simultaneously, the Indian government is offering production-linked incentives, totaling \$7.5 billion over the next five years, to encourage exports. Automotive suppliers can leverage their strengths,

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including their competitive costs, process expertise, high quality, and innovation focus, to pursue international growth and leverage the recent tailwinds. Many Indian companies have already done so successfully. For instance, exports account for about 60 percent of revenues at the leading forging player and between 20 to 40 percent at many tire companies. With production-linked incentives continuing, more companies could achieve similar results.

Downstream value chain. Expanding into the downstream value chain could provide an additional avenue of growth for Indian automotive companies. On average, the upfront cost of a vehicle only accounts for 20 to 25 percent of lifetime ownership costs. Other major components include fuel, service, financing transactions (such as vehicle loans and insurance), and resale value.

Globally, some OEMs have already ventured into these downstream-value-chain elements through new businesses, such as BMW's Secure, which offers finance and insurance services. Others have pursued partnerships, such as Ford's agreement with Geotab, which allowed it to enter the vehicle-data value chain. Even in India, there have been some early experiments in downstream ventures, such as Service Mandi from Ashok Leyland and True Value by Maruti Suzuki. First movers in this space have an opportunity to shape a digitally enabled downstream ecosystem that provides a one-stop solution for various customer needs, including scheduled service, breakdown service,

resale, and purchase of personalized accessories. Such comprehensive solutions would create a best-in-class ownership experience.

Achieving greater resilience in operations, especially the product, manufacturing, and supply-chain dimensions

The last couple of years have laid bare a simple fact: operational efficiency must be matched with operational resilience. A McKinsey study has estimated that supply-chain disruptions, some lasting over a month, could occur every 3.7 years across industries.⁴ Amid such uncertainty, companies will need operational resilience across the entire value chain, especially within product development, manufacturing, and supply chain.

To increase resilience, automakers should undertake a thorough review of their product portfolios to make them more customer-centric. They should also reduce the number of product variants to become more focused. In addition, automakers should reexamine their product-platform architectures and strive to reduce complexity by emphasizing modular product designs. This strategy can reduce part counts by 20 to 30 percent and improve the cost base by decreasing material costs by 6 to 8 percent. One leading Indian car manufacturer already has more than seven of its car models and over 60 percent of its sales volume on one platform. Other automakers should aim to cut the number of their vehicle platforms by half or more to achieve lower cost structures and faster time-to-market with new products.

⁴ "Risk, resilience, and rebalancing in global value chains," McKinsey Global Institute, August 2020, McKinsey.com.

As the manufacturing and supply-chain philosophy expands from being just-in-time to just-in-case, companies can win by embedding digital and analytics into their operations. In addition to reducing inefficiencies, this strategy will help companies build the robustness and resilience needed to respond to unpredictable external challenges. Globally, automakers are moving very fast to incorporate digital and analytics into their daily work. Consider Volkswagen, which has embarked on a massive Internet of Things and cloud-enabled digital transformation of production and logistics across its 124 plants globally.

Becoming a leader by promoting disruptive trends, especially within emerging markets

The mobility landscape will fundamentally transform over the next ten to 15 years, with ACES trends—autonomous driving, connected cars, electrified vehicles, and shared mobility—amplifying their impact. The evolving landscape presents a perfect opportunity for Indian automakers to lead the disruptive changes occurring across segments and gain a competitive advantage.

Today, only about 2 percent of new vehicles sold globally are electrified. The opportunity ahead is much larger, and the winners and losers are yet to be decided. Indian players can become homes for innovation, both domestically and in similar markets abroad, supplying complete products, aggregates, or components worldwide. In traditional micromobility segments (2W and 3W), Indian players can be the global leaders from day one. For PVs, such as cars and SUVs, and light CVs, Indian players can win by following the frugal design requirements essential for emerging markets.

Industry disruptions also create a huge opportunity for automotive suppliers to double down on building a strong position in the global EV supply chain. That will help suppliers gain additional revenues—an important consideration, since most have started to tap out opportunities in the local Indian market. A move into EV will also help suppliers diversify their portfolios and reduce risks related to market demand.

The ACES disruptions may prompt global automakers to reassess India's position in their global priorities. In addition to increasing sales within the country, they may see new opportunities to turn India into a global manufacturing center. Some leading multinational automakers, including Ford and Volkswagen, are already ramping up their exports play and increasing the scale of their Indian operations to sell more products from those facilities abroad.

Enablers for the Indian automotive market

Three enablers are essential in helping automakers to succeed in the evolving Indian automotive landscape.

Reimagining the partnership ecosystem

The days of going it alone are limited, since the increasing threshold of required investment often necessitates pooled resources. Companies may also find that they can access new customer segments by working with other companies that offer complementary products in areas that their current portfolio does not cover. Likewise, automotive players can benefit from working with partners with complementary capabilities or by sharing the risks associated with certain ventures.

Globally, automakers are reimagining their strategic partnerships to up their game across all the imperatives described above. Some are working at the product level, as GM and Honda are now doing with EV platforms and battery technology. Others are focusing on manufacturing or supply-chain management, as seen in the partnership among Volkswagen, AWS, and Siemens.

As Indian automotive players pursue new partnerships, they should clearly establish their core strengths (the “gives” from their side), as well as the areas where strategic partnerships will be helpful (the “gets” from the partners). They can then move from engaging in transactional relationships to forming “win-win” partnerships with long-term benefits.

Building the organization of the future

Automotive organizations have traditionally had a vertical functional structure with a clear hierarchy and reporting lines. That has served their needs very well for many decades, but it is increasingly creating bottlenecks and preventing companies from being nimble and agile in the face of change. In fact, many business experts claim that companies in other industries should not follow the example of automotive organizations, since their siloed structures slow them down.

For best results, automakers should reimagine their organization by developing two end-to-end systems for critical processes: A Product-Creation and Development System (PCDS) facilitates the product-development process from conception through vehicle development for production-ready models. A Customer-Value Delivery System (CVDS) provides a complete operational framework for all processes, from manufacturing to sales and service, thereby reducing siloes and building agility.

Automakers must also build a talent-to-value (T2V) view at each level of the organization by identifying the most critical roles and staffing them with top employees. Although this sounds simple, most organizations fall into the trap of using hierarchy, relationships, or intuition to make decisions about the appropriate talent for different roles. Organizations should move from these heuristics to more scientific and quantifiable T2V measures

to identify and fill the most critical roles. To help employees build the capabilities needed in critical roles in the future, companies should create data-based, individualized leadership development plans that are connected to their business objectives.

The focus on developing new systems combined with a T2V view may help companies leapfrog to the next level of performance and successfully execute all their major imperatives.

Transforming the organization through digital and analytics

Digitization and advanced analytics are already enabling unprecedented productivity improvements and increasing the focus on customers. Most leading automotive organizations have articulated a bold aspiration for unlocking real bottom-line impact from these technologies and have created a CXO-level role to drive the transformation.

The first wave of change for automakers is underway. Leading companies get 20 to 30 percent more customer enquiries in their sales system by engaging in targeted digital marketing and partnering with digital platforms to generate leads. They are also deploying advanced analytics to create personalized sales pitches in real time, increasing lead conversion by 5 to 10 percent. Globally, innovative brands such as Tesla and Lynk & Co view digital channels as their future, as opposed to the traditional brick-and-mortar

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channel. Closer to home, a leading car brand announced a massive increase in digital enquiries—approaching 2 million—and a significant gain in digital sales to levels over 200,000 over the past 18 months.

Automotive suppliers have traditionally leveraged technology much more on back-end operations, with many use cases focusing on enhancing yield, energy efficiency, quality, and throughput in their plants. They have also used technology to make smarter, system-driven decisions on production and supply-chain planning. Now, however, automotive suppliers should undertake an end-to-end digital and advanced-analytics transformation that focuses on business impact rather than technology.

It should have a user-centric design and involve selective investments in critical talent, including tech specialists. To avoid unnecessary delays, companies should adopt an agile approach when developing and testing digital and analytic use cases.

The automotive sector will play a central role in India's aspiration to become a \$5 trillion economy. The recovery from the COVID-19 crisis has created a unique situation in which automakers can reinvent their industry and emerge stronger, both within India and globally.

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