INTRODUCTION

CHAPTER 1. INTRODUCTION

1.1 Global Automobile Industry

Effects of globalization

The major players in the global automobile industry encompasses, General Motors, Toyota, Ford, Honda, Volkswagen, and Daimler Chrysler, all of which operate in a global competitive marketplace. Globalization has directly affected the international automobile industry. Due to this the growth has greatly accelerated during the last half of the 1990's, and still continuing. This has led to the construction of important overseas facilities and establishment of mergers between giant multinational automakers. Before globalization, automobile industries presence can be seen in only advanced countries. In such a way that It was primarily a national industry. Due to this it was serving only the national market.

The industry has a large chunk of the dependent industry like the auto component manufacturers, cutting tool industry. And to an extent steel industry also. Hence the industry had a major impact to all the above said industries. Due to this the automobile industry was considered the national industry. Therefore the manufactures had their strategies that were focusing only on their own country. Hence if the manufacturer wanted to go global it should have achieved a superior competitiveness in their domestic market.

The Transition

The world's automobile industry has entered into a period of great change. This period is as significant as the changes that started the automotive industry almost 100 years ago. Global production capacity has made competition fiercer and the race for market share and development of new generation vehicles has become more competitive. This highly competitive environment has produced a rapid globalization of the industry through cross investments, mergers and strategic alliances among car manufacturers.

Between 1980’s and 1990’s when globalization developed rapidly, the major players competed against each other at the national level. The best example would be of Toyota entering into the US and European markets and competing against the major players over there. The reason that Toyota could compete against giants was by expertising in the area of production (lean production). By this they ate away into the market share of GM and ford. This led to the rapid reforms taking place in the area of product development and in the production systems by the US and European car manufacturers. By this globalization took place, when there was the movement of factors of endowments i.e. flow of capital, people took place beyond the national borders.

Opportunities

By the close of the Twentieth Century, more than 700 million automobiles were owned worldwide. But there is a big difference in distribution. In North America and Western Europe, 593 and 525 vehicles respectively, were owned out of 1000 people (in 1998), while the rate in Africa, Asia, Latin America was 22.7, 39.6 and 88.5 vehicles respectively. These distribution differences relate to the underlying differences in the world's regional economies. And also the opportunity that is there for the automobile industry.

REGIONS	RATE (per thousand people)
North America	593
Western Europe	525
Africa	22.7
Asia	39.6
Latin America	88.5

Therefore, the automobile industry needs to achieve solutions to manufacture lower cost cars so that people from all over the world will be able to pursue the convenience of automobile ownership. Currently, the global automobile industry is undergoing a major reorientation. Global automobile firms are segmenting into two distinct product markets low priced cars and premium segment cars with intense competition in both segments. The strategy is to make many variants using the same platform.

Thus, Toyota and Nissan are working on a common small car platform, with an investment of $1.35 billion targeting volumes of 500,000 cars annually. The **objective**: reduce cycle time and development cost, and then use branding to create differentiation and induce selling. In a situation of global oversupply and weak demand, as well as intense competition, aggressive cost reduction is the mantra.

Trends and Forecasts

The global market for new passenger cars is forecast to increase by some 3.9% to 51.7m units in 2006 - an increase of almost 1.9m units on the previous year. The biggest contribution comes from developing Asia and the growth of that region and especially China and India. From this we see that so many activities that is taking place, when many major players are setting up their factories in India from General motors, Toyota, Ford, BMW etc are planning or already have set up their plants in India.

1.2 Indian Automobile market

Globalization is a two-way process and to benefit from this, Indian firms have to exploit global opportunities. The automobile sector can make a difference if Indian firms act with foresight. In 2000, global trade in automobile products totaled $549 billion, 10 per cent of all the global trade. Also the automobile industry creates enormous employment and it has substantial spillover benefits on industrialization and regional development.

Changing Scenario

Compared to the size of India - the world's second most populous country - the proportion of vehicles to the size of the population is very low, with less than 1% of the population owning passenger cars and only around 3.5% of households are able to afford to buy a car. However, on the basis of present income trends and the increasing willingness of Indian consumers to borrow money, the proportion of households able to buy cars could double by the end of the decade. Consequently, competition is growing, with international producers seeking to gain a foothold in India through joint ventures with local firms. Car firms are competing to reduce prices, with Tata Motors, India's second-largest car firm, determined to produce a car costing just Rs100, 000 (US$2,000) - nearly half the price of the Hindustan Ambassador, India's traditional low-cost car.

Incentives to Grow

Between 25 and 30 new passenger car models were introduced on the Indian market in 2005, most of which are medium-sized and luxury car manufacturers, which have benefited from a reduction in import duties. This trend continued in the coming years also with more new vehicles coming up where there is major competition. At the same time, import tariff cuts introduced in 2004 and excise duty cut in the recent budget of 2006 have helped offset rising world commodity prices, enabling Indian manufacturers to remain competitive. The excise duty cut that has been done is in a view to provide the incentive to the small car manufacturers to make India as the small car manufacturing and export hub.

This decision did not go well with the big car manufacturers like ford, general motors. India is also positioning itself as a major regional car exporter, rivaling hina. Around 15% of passenger car production is exported, with the proportion growing every year.

Growing Market and Competing with China

India's auto market is one of the worlds most competitive, as low costs make it an attractive assembly ground for overseas players. Joint ventures are common. Nine companies, including the majority of the world's major manufacturers, produce cars in India. Exports have become one of the automotive industry's biggest growth areas. Although starting from a low base, exports of passenger cars rose by 28%* for the financial year ending March 2005, while shipments of all vehicles were up 31.2%*. India's largest markets are in Asia and Africa, but Indian producers are gaining a foothold in the European markets with improvements in quality.

With almost 24% growth in car sales in 2004*, India has emerged as the fastest-growing car market in the world, outstripping China's estimated 13.7% growth last year. And in the year 2005-06 the sales increased from 820179 to 882094* in the passenger car segment. The whole industry sales figures increased from 7897629 to 8910224* with the major contribution from the two wheelers. But India's potential looks even more promising, so much so that investment-banking firm Goldman Sachs has predicted that it will have the largest number of cars by 2050. However, at this point, India is still far behind in terms of car sales compared to other Asian giants like China, South Korea and

Japan. But considering that India's auto industry, really took off only as recently as 2000, it has done amazingly well.

- By 2016, the automotive industry should have created employment for 25 million people in India, according to government predictions, set out in its Automotive Mission Plan. (To put this into context; MG Rover's collapse in 2005 led to the loss of 6,000 jobs.) For every job created directly by the automotive industry, a further seven are created indirectly in the economy at large, explains Jagdish Khattar, managing director and chief executive of India's best-selling car maker, Maruti Udyog, and a contributor to the report.

The new jobs that are being created by the automotive industry in India are not all about sweat and muscle on the shop-floor. The auto industry is just a multiplier, a driver for employment, for investment, for technology

The Indian government predicts that in 10 years, no more than one-tenth of the jobs created by the automotive industry will be unskilled, with some two-thirds of the new jobs being classed as skilled and the remaining classed as managerial or general work.

India Automobile Industry

A well developed transport network indicates a well developed economy. For rapid development a well-developed and well-knit transportation system is essential. As India's transport network is developing at a fast pace, Automobile Industry is growing too. Also, the industry has strong backward and forward linkages and hence provides employment to a large section of the population. Thus the role of Automobile Industry

Auto News Bulletin, Weekly News reports from February 24 – March 2, 2006, Murad Baig Associates

cannot be overlooked in Indian Economy. All kinds of vehicles are produced by the Automobile Industry. It includes the manufacture of trucks, buses, passenger cars, defense vehicles, two-wheelers, etc. The industry can be broadly divided into the Car manufacturing, two-wheeler manufacturing and heavy vehicle manufacturing units.

The major Car manufacturer are Hindustan Motors, Maruti Udyog, Fiat India Private Ltd., Ford India Ltd ., General Motors India Pvt. Ltd., Honda Siel Cars India Ltd.,Hyundai Motors India Ltd., Skoda India Private Ltd., Toyota Kirloskar Motor Ltd., to name a few. The two-wheeler manufacturing is dominated by companies like TVS, Honda Motorcycle & Scooter India (Pvt.) Ltd., Hero Honda, Yamaha, Bajaj, etc. The heavy motors like buses, trucks, defense vehicles, auto rickshaws and other multi-utility vehicles are manufactured by Tata-Telco, Ashok Leyland, Eicher Motors, Bajaj, Mahindra and Mahindra, etc

Growing importance

Much of the foundations for the future importance of the automotive industry in India are being laid this year. A string of companies - including Tata Motors, Maruti Udyog and Mahindra & Mahindra, as well as several global automotive groups - are investing heavily in new manufacturing and assembly plants in automotive hubs across the country.

Automotive contribution to GDP

India's GDP is set to double over the next decade

In percentage terms, the automotive industry's contribution should also double

In dollar terms, the sector's contribution is set to quadruple to some $145bn "2007 is the year of India," insists Norbert Reithofer, chief executive of BMW Group.

Currently, the sector accounts for 5% of India's economic output, but it is set to grow much faster than the rest of the economy. Consequently, by 2016 its output in dollar-terms should have quadrupled, while GDP is expected to have merely doubled. This will make the automotive sector an ever more important contributor to economic growth in India: by 2016 it should account for 10% of India's GDP, according to the government.

Following India's growing openness, the arrival of new and existing models, easy availability of finance at relatively low rate of interest and price discounts offered by the dealers and manufacturers all have stirred the demand for vehicles and a strong growth of the Indian automobile industry.

The data obtained from ministry of commerce and industry, shows high growth obtained since 2001- 02 in automobile production continuing in the first three quarters of the 2004-05. Annual growth was 16.0 per cent in April-December, 2004; the growth rate in 2003-04 was 15.1 per cent The automobile industry grew at a compound annual growth rate (CAGR) of 22 per cent between 1992 and 1997.

With investment exceeding Rs. 50,000 crore, the turnover of the automobile industry exceeded Rs. 59,518 crore in 2002-03. Including turnover of the auto-component sector, the automotive industry's turnover, which was above Rs. 84,000 crore in 2002-03, is estimated to have exceeded Rs.1,00,000 crore (USD 22. 74 billion) in 2003-04.

Exports

The performance of the automobile industry in exports is encouraging. Government has liberalized the norms for foreign investment and import of technology and that appears to have benefited the automobile sector. The production of total vehicles increased from 4.2 million in 1998- 99 to 7.3 million in 2003-04. It is likely that the production of such vehicles will exceed 10 million in the next couple of years.

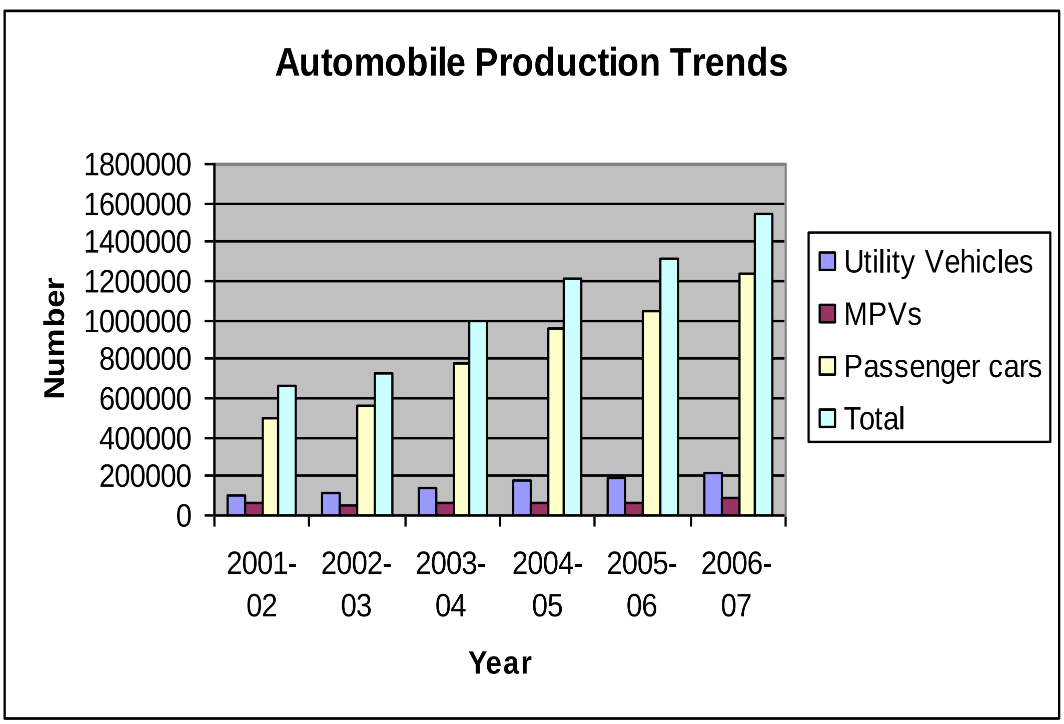
Commercial vehicle exports increased to an all time high of touching 30,000 growing at a rate of 72% Passenger vehicle exports grew by 29% to 166,413 units.

The Two Wheelers also crossed three hundred thousand mark for the first time clocking around 366,724 numbers and recorded a growth rate of plus 38% over the last year.

Automobile Production Trends

(Number of Passenger Vehicles)

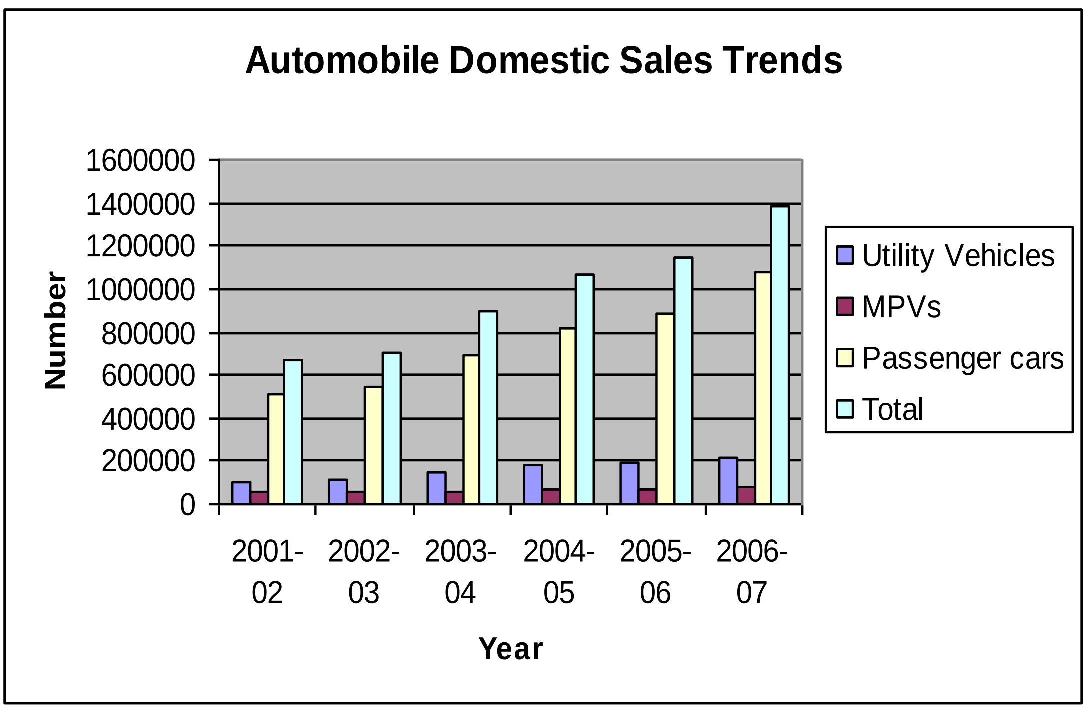
Category	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Passenger cars	500301	557410	782562	960487	1046133	1238032
Utility Vehicles	105667	114479	146325	182018	196506	222111
MPVs	63751	51441	60673	67371	66661	84707
Total	669719	723330	989560	1209876	1309300	1544850



Automobile Domestic Sales Trends

(Number of Passenger Vehicles)

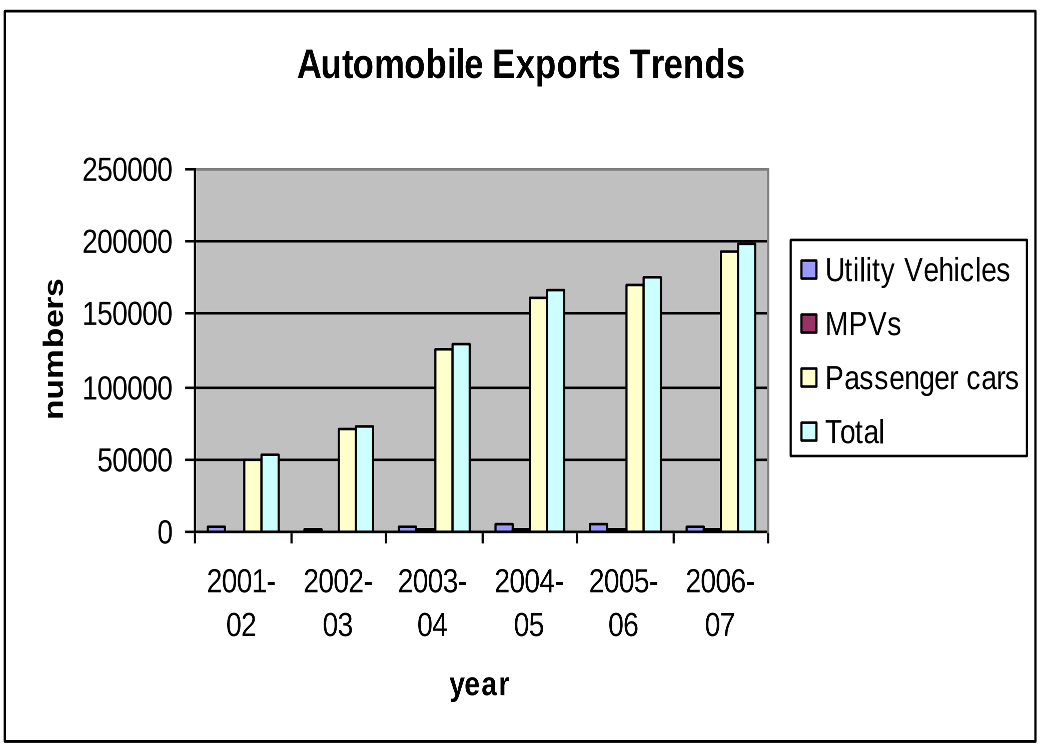
Category	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Passenger cars	509088	541491	696153	820179	882208	1076408
Utility Vehicles	104253	113620	146388	176360	194502	220199
MPVs	61775	52087	59555	65033	66366	83091
Total	675116	707198	902096	1061572	1143076	1379698



Automobile Exports Trends

(Number of Passenger Vehicles)

Category	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Passenger cars	49237	70263	125320	160670	169990	192745
Utility Vehicles	3077	1177	3049	4505	4489	4403
MPVs	815	565	922	1227	1093	1330
Total	53165	72005	129291	166402	175572	198478



The key factors behind this upswing

Sales incentives, introduction of new models as well as variants coupled with easy availability of low cost finance with comfortable repayment options continued to drive demand and sales of automobiles during the first two quarters of the current year. The risk of an increase in the interest rates, the impact of delayed monsoons on rural demand, and increase in the costs of inputs such as steel are the key concerns for the players in the industry. As the players continue to introduce new models and variants, the competition may intensify further. The ability of the players to contain costs and focus on exports will be critical for the performance of their respective companies.

The auto component sector has also posted significant growth of 20 per cent in 2003-04, to achieve a sales turnover of Rs.30,640 crore (US$ 6.7 billion). Further, there is a potential for higher growth due to outsourcing activities by global automobiles giants. Today, this sector has emerged as another sunrise sector.

Even Growth

Opposing the belief that the growth in automobile industry has catered only to the top income-stratum of society, Growth of exports of 32.8 % in the first three quarters of 2004-05, the fastest growth in volumes has come from commercial vehicles as against passenger cars.

Between 1998-99 and 2003-04, output of commercial vehicles has grown 2.8 times compared to the 2.2 times increase in passenger cars. Furthermore, two-wheeler output continues to dominate the volume statistics of the sector. In 2003-04, for every passenger car turned out by the sector, there were 7 two-wheelers produced. In the two wheeler segment, there is a greater preference for motorcycles followed by scooters, with both production and domestic sales of motorcycles increasing at faster rates than for scooters in the current and previous years. However, mopeds have registered low or negative growth. Export growth rates have been high both for motorcycles and scooters.

RESEARCH DESIGN

CHAPTER 2. RESEARCH DESIGN.

Problem Definition:

Toyota is the world's second largest car manufacturer, which is likely to overtake the No 1 player General Motors in couple of years. Toyota entered into Indian market with its MUV Qualis in the year 2000, later it entered into the luxury segment with corolla and then with higher segment vehicle Camry. With the success that it has enjoyed with all three segments it discontinued the production of Qualis in the year 2005 and came up with the upgraded MUV Innova, which was a grand success. Toyota market share in the Indian automobile sector is only around 1-2%, and we know if Toyota has to reach the target that it has set for itself of reaching 10% market share by the year 2015, and then it has to target other segment of car owners in India. And the segment that it needs to target is small car segment, when we say small car segment it should have the cubic capacity of 1000 to 1500 cc vehicle, and based on the length also. And this segment is growing at a faster rate than the so-called A-segment vehicle. Hence small car segment is the most lucrative of all in the Indian market.

DESIGN:

The analysis was done in two stages first being the external analysis followed by the internal analysis by which we found out the opportunity and threats and matched the same with strengths and weakness of Toyota to develop strategy. In the following project a detailed analysis is done and strategies are put forward for Toyota to enter into the Indian small car segment.

Objectives:

- To study the Indian automobile industry.
- To study the different segments that industry caters to.
- To identify opportunities and threats in the industry.
- Formulating strategies for Toyota to enter into Indian small car segment.

Scope:

Study is restricted to Indian automobile industry. A through study/analysis would be done on the automobile industry to find out the opportunities that are there in the industry.

Methodology:

Collection of data is through various secondary sources like Newspaper, Internet, Magazines and articles. Then the analysis would be done. This would include Industry Analysis, Competitor Analysis, Environmental Analysis and Customer Analysis. Based on these analysis strategies would be developed for Toyota to enter into Indian small car segment. Through out the study different marketing models would be made use of.

ABOUT

THE

COMPANY

CHAPTER 3. ABOUT THE COMPANY

History of Toyota

Toyota Motor Corporation was incorporated in 1937. Toyota Motors is a Japanese car manufacturing company. Toyota is one of the largest car manufacturing companies of the world. It also has businesses in financial services and manufactures robots. In 2006, Toyota was named the most profitable car manufacturing company in the world. Toyota Motor Corporation forms the largest part of the Toyota Group. Toyota has 52 overseas car manufacturing divisions in 27 countries around the world. Toyota's vehicles are sold in more than 170 countries of the world.

Toyota Motor Corporation is a Fortune 500 Company.

Activities: Toyota Motor Corporation sells its cars under four major brands:

Toyota: This was the first Toyota Brand and this remains the best selling brand. Toyota Motor Corporation enjoys a 45% domestic market share in Japan from sales of Toyota branded vehicles. A comprehensive range of cars, trucks, SUVs, and other vehicles are produced under this brand name.

Lexus: The brand name for Toyota's luxury car division is Lexus. Lexus manufactures convertible SC, luxury SUVs, and hybrid vehicles.

Hino Motor Co., Ltd: It manufactures and markets buses, trucks, and other products. The company also facilitates distribution and transport systems applicable to modern business needs by manufacturing higher quality products.

Daihatsu Motor Co., Ltd: It has a long history of manufacturing compact cars or small cars.

Hino and Daihatsu are Group Companies of Toyota Corporation.

Toyota Motor Corporation also has some other services such as Higher Education, Finance, Robotics, and Agricultural Biotechnology.

Performance:

The Net Revenue for the fiscal year 2006 amounted to Yen 21,036,909 million and for the fiscal year 2005 it was Yen 18,551,526 million.

The Net Income for the fiscal year 2006 amounted to Yen 1,372,180 million and for the fiscal year 2005 it was Yen 1,171,260 million.

Total Assets held by the company for the fiscal year 2006 amounted to Yen 28,731,595 million and for the fiscal year 2005 it was Yen 24,335,011 million.

Organization: Representative: Katsuaki Watanabe, Chief Executive Officer

No of Employees: 285,977

"The Toyota Way"

Management Principles From the World's Greatest Manufacturer.

1. Base your management decisions on a long-term philosophy, even at the expense of short-term goals.

2. Create continuous process flow to bring problems to the surface.
3. Use "pull" systems to avoid overproduction.
4. Level out the workload (heijunka). (Work like the tortoise, not the hare.)
5. Build a culture of stopping to fix problems, to get quality right the first time.
6. Standardized tasks are the foundation for continuous improvement and employee empowerment.
7. Use visual control so that no problems are hidden.
8. Use only reliable, thoroughly tested technology that serves your people and processes.
9. Grow leaders who thoroughly understand the work, live the philosophy and teach it to others.
10. Develop exceptional people and teams who follow your company's philosophies.
11. Respect your extended network of partners and suppliers by challenging them and helping them to improve.
12. Go and see for yourself to thoroughly understand the situation (genchi genbutsu).

13. Make decisions slowly by consensus, thoroughly considering all options; implement decisions rapidly.
14. Become a learning organization through relentless reflection (hansei) and continuous improvement (kaizen).

Toyota Kirloskar Motors

In October 1997, Toyota Kiloskar Motors (TKM) started as a joint venture between Kirloskar Group and Toyota Motor Corporation. Toyota Motor Corporation (TMC) holds 89% of the share and the remaining 11% is owned by Kirloskar Group. TMC was established in 1937 by Kiichiro Toyoda in Japan. It is the largest vehicle manufacturer of Japan and is one of the biggest vehicle manufacturers of the world. The manufacturing unit is located at Bidadi near Bangalore.

Toyota Motor Corporation holds a strong place in the automotive market as the world's second largest automaker and America's number one car importer, and number one in profit making. Toyota Kirloskar Motors Ltd (TKM) is a joint venture between the Kirloskar group and Toyota Motor Corporation (TMC), Japan.

Japan's "King of Inventors" Sakichi Toyoda then headed the Toyoda Automatic Loom Works. The patent rights to one of his machines had been sold to Platt Brothers (UK) and provided the seed-money for the development and test building of Toyota's first automobiles.

Vision:

The vision of Toyota Kirloskar Motor is to: Contribute to Indian industry and economy through technology transfer, human resource development and vehicles that meet global standards at competitive price. Contribute to the well-being and stability of team members. Contribute to the overall growth for our business associates and the automobile industry.

Mission:

Our mission is to design, manufacture and market automobiles in India and overseas while maintaining the high quality that meets global Toyota quality standards, to offer superior value and excellent after-sales service. We are dedicated to providing the highest possible level of value to customers, team members, communities and investors in India.

Philosophy

Toyota's corporate philosophy of constant improvement strongly contributes to its success. The company strives to better its product in order to appeal to its customers both buyers and potential buyers. Currently, Toyota is now concentrating on a new generation of consumers and creating stronger bonds with this younger market. As a result of its new focus, Toyota has created a new line of vehicles, targeting the generation of "cool".

TKM aims at contributing to Indian Industry and economy through technology transfer, human resource development and vehicles that meet global standards at competitive price and contributing to the growth of the automobile industry. TKM, along with its dedicated dealers and suppliers, has adopted the "Growing Together" philosophy of its parent company TMC to create long-term business growth.

Toyota's success in the automotive business is based on its policy of localization of its operations in order to provide customers with the products they need where they need them. The company believes that this builds mutually beneficial long-term relationships with local suppliers and helps the company fulfill its commitments to local labor. Toyota is by far the largest Japanese automotive manufacturer, producing more than 4.5 million vehicles per year, equivalent to one car manufactured every six seconds.

Indian Operations

Toyota's plant in India is situated at Bidadi, Karnataka in southern part of India. Toyota is committed to manufacture technically advance and environment friendly products. It meets high environmental standards and is scheduled for an environmental audit to obtain ISO 14001 certification. Toyota has always believed that the best way to serve society is by providing automobiles that will not only make people happy, but will also be environment friendly. Wastewater at TMK is collected and purified to a level that can be used for fishponds and rice fields. To realize high quality vehicles production at reasonable price, Toyota seeks the best balance between human resources and robot technology. As technology constantly evolves, employees improve themselves through daily work and training programs, so that Toyota production also continues to develop. TMK aims to provide a wide selection of innovative, reasonable priced and high quality products through an exclusive dealer network with the best sales and after-sales service at global Toyota standards. Timely customer feedback through the service network also allows the company to respond to emerging customer needs and introduce new products tailored to the Indian market. TMK has developed an exclusive 3S dealer network, integrating "Sales," (after sales) Services and "Spare parts" (storage). Placing customer satisfaction first, the service network will feature modern showrooms and speedy and efficient service centers, allowing customers to experience the convenience and pleasure of owing a Toyota automobile.

Why

Small car?

CHAPTER 4. REASONS

Why small car?

If we see the sales trend of last two to three years the sales in the passenger cars, A-segment has suffered a set back with its sales going down rapidly, this is due to dipping sales volume of M-800, though the car has made a come back in last two months with the positive growth. The shift is due to people are directly going in for the B-segment cars, which is seeing a rapid growth at 33% in the year 2005-06*. Hence people from Toyota are looking in to tap into this market as said by one of the analyst Small cars are cruising along, with sales growing at 17% a year. Despite an ever-increasing demand for luxury cars, the small car segment is said to continue to lead the car market. Today over 90% of the vehicles sold are at a price less than Rs 5 lakh.

With the surge in sales, from small to mid-size cars, the automobile sector is now being seen as one of the main drivers of the economy, growing at the rate of more than 8%. As said by the spokesperson of Toyota India and china are the emerging markets that they are looking for to increase their market share. In one of the financial dailies Nihon Keizai it was reported that Toyota Motor Corp is planning to launch a small passenger car priced at Rs 3,22,000(approx) in India and other nations by 2010 in a bid to increase sales in emerging markets. The newspaper said, "Toyota is struggling to keep its market shares in emerging markets due to a lack of low-cost models and faces competition from rivals like Suzuki and Hyundai". With its market share in Indian passenger car is very low of about 1.3% (approx) it wants to improve this market share.

Though it has a market share of 19% in the Multi utility vehicle. Hence it is coming up with the small car for the Indian market.

Small cars (comprising models like Maruti 800, Alto, Santro, Indica, WagonR, Swift, Getz etc.) have enjoyed faster growth this year than the overall growth of just under 22%. Small car exports have clocked over 84,000 units till October this year. Last year, small car exports touched 93,844 units in April-November. As for domestic sales, the compact car curve has not been evenly steep year-on-year. It grew from 3,97,682 units in April-November 2004-05 to 4,23,954 units last fiscal, up just 6.6%.

Budget bonanza for small cars *

The government is considering a move to reduce the excise on small cars to 12 per cent in the coming Budget. The duty was cut from 24 per cent to 16 per cent in the last Budget. The rate applicable on bigger cars may also be pruned from 24 per cent to 16 per cent. The heavy industries ministry, which is pushing for this reduction, has also suggested broadening the definition of the small car to include those with engine capacities up to 1,500 cc.

At present, cars up to 4 metres in length qualify for the lower excise rate of 16 per cent. The other clause is that their engine, if petrol-driven, should not exceed 1,200 cc. If diesel-driven, the ceiling on the engine size is 1,500 cc.

Since the last Budget, the excise on cars has been in sharp focus. The change was made because the finance minister wanted to make India a hub for the manufacture of small cars.

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*Business Standard: December 26, 2006

If the definition of the small car is changed, some of the cars in the B + segment, Maruti's Swift, Hyundai’s Getz, etc will also qualify for the lower duty. Since auto companies have been known to pass on excise cuts to the consumer, this can help in shifting the market to bigger cars, a trend which has already been catching on.

The excise cut is expected to bring down the prices of small cars including hatchbacks, which form a bulk of the car market like the Hyundai Getz, Fiat Palio, Tata Indica and Maruti Swift, are expected to come down by Rs 30,000-50,000.

Even last year in an attempt to boost the auto sector the government in the Budget of 2006-07 had reduced excise duty for small cars from 24 to 16 per cent.

This time, the ministry has suggested that the reduction should be passed on to the entire industry-and more cars should fall in the “small car” ambit and pay a smaller excise duty. At present four cars from Maruti's stable (the best seller Alto, M-800, WagonR and Zen Estilo), Hyundai’s Santro and one model of the Tatas—Tata Indica (the 1,200cc petrol version)—and the recently launched Chevrolet UV-A reap the excise benefit deductions for small cars.

Car sales have increased by 21 per cent in the April-November period with 871,752 units sold in the domestic market. According to the Society of Indian Automobile Manufacturers, the passenger vehicle segment is expected to touch 25,39,997 by 2012.

Various chambers view on automobile sector in the coming budget 2007 is as follows:

Confederation Of Indian Industry (CII): The Confederation Of Indian Industry has asked for the reduction in the excise duty to 16 percent from the present rate of 24 percent on various types of passenger vehicles. In case of the two wheelers the CII demands for a reduction in excise duty to 8 percent.

Federation of Indian Chambers of Commerce and Industry (FICCI):

The Federation of Indian Chambers of Commerce and Industry on its view has shown that the automobile sector has grown at a rate of 22 per cent till September 2006. For achieving further growth rate and earning more revenues the excise duty rates should be reduced.

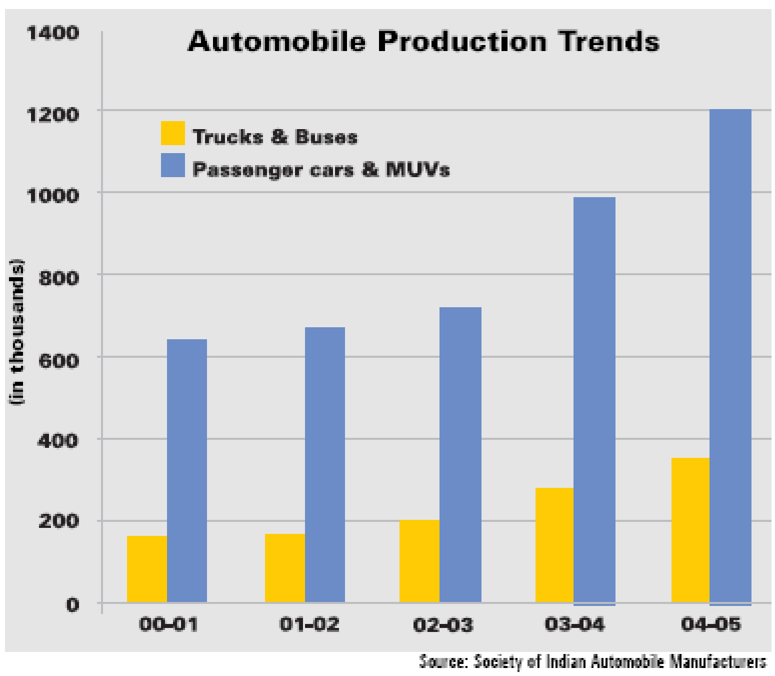
Toyota plans US$ 420 million small car spend in India.

New Delhi: Japanese car major Toyota Motor Corp is reported to be planning an investment of $330-420 million (about Rs 1,890 crore) for setting up a small car plant near its existing facility in Bangalore. Toyota's second Indian manufacturing facility, will have an initial capacity of 1,00,000 cars a year.

According to auto industry sources, the country's cumulative domestic sales of small car during April-November have already hit 5.2 lakh units, up nearly 23% from 4,23,954 units sold in the same period last year. Include exports, and the figure will be around 6 lakh units.

"The strict CO2 emission rules due in Europe by 2010 are prompting global OEMs to look for small car options from markets like India to offset the fuel efficiency and other averages in their existing stable. That's why more and more companies are looking to build compact car manufacturing facilities."

- ✓ Suzuki has already announced plans to make a new small car in India for domestic sales and export for itself and Nissan.
- ✓ Renault has also announced plans to set up a 5-lakh unit facility with M&M, in which Nissan is expected to become a partner.
- ✓ Honda has announced that it will set up another facility for a small car (probably the new Jazz) in India,
- ✓ Hyundai is expanding its capacity, while GM is setting up a new plant in Maharashtra for small car
- ✓ Spark. Ditto for Volkswagen, which is setting up a compact car facility near Pune.



The small car rush and the build up of capacity may also have its impact on the global auto pecking order, says Arindam Bhattacharya of Boston Consulting Group. “The biggest growth segment in the next five to 10 years will be the small car in developing markets where many global OEMs are disadvantaged,” he says. That could lead to the ascent of players like Tata Motors of India and Chery of China

New Delhi: Can India emerge as a hub for car manufacturing? In this year's government budget, Finance Minister P Chidambaram reduced the excise duty on small cars from 24 per cent to 16 per cent and said he hoped that "industry will seize the opportunity to make India a hub for the manufacture of small and fuel-efficient cars".

The commercial vehicles segment grew by 36.12 per cent during the April-February 2007 period, while three wheeler sales grew by 14.5 per cent, it added.

For the same period, two wheeler sales grew by 12.56 per cent, with motorcycles segment witnessing a growth of 14.45 per cent.

Automobile Production *(Numbers in 000)*							
Category	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07 (till Sept'06)**
Passenger cars	513	564	609	842	961	1,046	594
Multi-utility vehicles	128	106	112	146	249	263	144
Commercial vehicles	157	163	204	275	350	391	237
Two wheelers	3,759	4,271	5,076	5,625	6,527	7,600	4,155
Three wheelers	203	213	277	341	374	434	264
Total	**4,759**	**5,316**	**6,280**	**7,229**	**8,461**	**9,735**	**5,394**
Growth in per cent	(-)2.00	11.70	18.60	15.12	16.80	14.97	18.04
Source: Ministry of Heavy Industries & Public Enterprises (Department of Heavy Industries)							

Domestic Sales

Domestic passenger car sales increased 46.47 per cent to 92,594 units in February 2007 when compared with 63,213 units in February 2006, according to SIAM.

Sales of passenger vehicles in India are likely to grow at 14.9 per cent each year to touch the 2.1 million mark by 2010.

To grab a bigger pie of the Indian car market, auto players are eyeing the small car segment. Toyota, Ford, Honda, Mitsubishi and General Motors will launch their small cars in the next three years. This is expected to take Indian passenger vehicle sales to 2.1 million units by the end of March 31, 2010, according to Frost & Sullivan.

The Indian auto industry has grown at an impressive 16.82 per cent over the last year with total sales of vehicles reaching around 10 million vehicles till November 2006 as against 8.5 million in 2005. Spurred by a huge demand from the market, the increase in production is set to improve further driven by a buoyant economy, with increasing purchasing power, new product launches, coupled with attractive finance schemes from automobile manufacturers and financial institutions.

The domestic passenger car market recorded a historic 22.66 per cent growth in April-December, 2006, second only to the 28.56 per cent in fiscal 2003-04. Analysts believe the industry will close fiscal 2006-07 with around 22-23 per cent growth, against just 16 per cent in 2005-06.

Destination India

India is on every major global automobile player's roadmap, and it isn't hard to see why:

- India is the second largest two-wheeler market in the world
- Fourth largest commercial vehicle market in the world
- 11th largest passenger car market in the world
- Expected to be the seventh largest by 2016

Investments

The Indian automobile sector has witnessed a slew of investments in the first half of 2006, dominated by plans for new plants and ramped up capacities.

- Sweden-based bus manufacturer Volvo is setting up its proposed bus body-building unit in Bangalore.
- Japan's Nissan Motor Company, along with Mahindra & Mahindra (M&M) and Renault of France is investing US$ 904.4 million in a tripartite integrated facility in Tamil Nadu to make passenger cars and utility vehicles.
- Pierburg, the auto component subsidiary of euro 3.5 billion German group Rheinmetall, is looking at setting up a manufacturing facility in India.
- DaimlerChrysler, the world's second-largest luxury carmaker, plans to set up a new factory in India to assemble cars.
- German carmaker Volkswagen plans to invest up to US$ 511.1 million to set up a plant in India.

Government initiatives

The Government is planning to set up three dedicated corridors for automobile companies exporting to the rest of the world. Dedicated rail corridors are proposed between Gurgaon and Mumbai port, Pune and Mumbai including JNPT and Jamshedpur and Kolkata. A dedicated highway for automobile movement is also being considered between Gurgaon and Delhi. The proposal also includes creating the last-mile, road-port connectivity at all the four ports.

Foreign cars on Indian roads

This year, the Indian automobile market will see at least 30 new launches, spanning everything from affordable hatchbacks to mid-size models to super luxury high-end cars and SUVs.

Mercedes, BMW, Porsche, Audi, Bentley and Rolls Royce are already here. Now, the Italian marquee Lamborghini is also planning to enter the country. The Italian marquee plans to launch the Gallardo. German luxury car maker Audi AG is preparing to drive into India a range of sporty, lifestyle cars like S8 and RS4. The year 2007 will also mark Audi's entry into merchandising in Indian car bazaar. General Motors launched the Aveo and GM plans to bring in a sporty variant of the Chevy Optra to add to its existing line-up.

ANALYSIS

&

INTERPRETATION

0F DATA

CHAPTER 5. ANALYSIS

5.1 EXTERNAL ANALYSIS

This analysis is done to find the opportunities and threats that the company is expected to find in the industry. By finding the trends and future events and the uncertainties that the company is expected to face. By doing this we will know what are the areas that need to be looked at and what are the information that is required. By knowing all these things we will know where there is opportunity and where the company can compete and how to compete.

5.1.1 Customer Analysis

Segments

In automobile the passenger cars can be segmented into seven categories, they are A, B,B+, C, D, MUV's and SUV's. Here the major chunk of the business is taken by A, B, B+ and C segments which would be around 85% of the total automobile sales. Then the rest is divided into the MUV's, D and SUV's. Now the three players share the major portion of the business they are Muruti Udyog Ltd, Tata Motors and Hyundai Motors.

In the year 2002-2004 the major revenue that these companies used to get is from the A and B segment vehicles. The major change came in the C segment vehicle, which earlier had only one player Maruti Esteem. Now there are around seven players who are eyeing for the pie in the C segment, which is growing rapidly next to B segment vehicles. Thus the competition is intense in that segment. The growth in this segment is in double digits.

D segment is dominated by Toyota followed by Skoda and Honda. Though Skoda has the numbers in excess, this is because it caters to both petrol and diesel cars. But if we look at only petrol cars Toyota dominates the D segment vehicles. Seeing the opportunity in this Honda recently launched Honda Civic.

Now in D+ segment ie the luxury cars the competition is between Honda, Toyota and Mercedes, with each company launching the upgraded version of the previous models. Even the competition is increasing in the MUV segment with major business is taken by Mahindra and Mahindra followed by Toyota, Tata Motors and Chevrolet. Thus we see that competition has increased in each and every segment of the passenger cars with intense competition is seen in B and C segment vehicles.

With the growing competition, three companies have captured a huge market share in A, B, B+ and C segments. Here A, B and B+ is dominated by Maruti followed by Hyundai and Tata Motors. And a C segment is dominated by Tata Motors followed by Hyundai and Maruti.

If we look at the entry strategies of the major players, like Maruti, Tata and Hyundai. Maruti came up with M-800 followed by omni, Zen and Esteem. After this it sensed the huge market for the B- segment vehicles, to utilize this huge opportunity it came up with Alto and Wagon-R, though it was little late in launching its own tall boy design. This was captured by Hyundai, which launched Santro. Then it saw an opportunity in C- segment vehicle for that it launched Accent. Which is still the market leader, now the production of Accent is stopped and new vehicle is expected to be launched. Tata motors which were earlier into manufacturing into the MUV's designed its own Tata Indica. And later it launched Indigo which fits into C-segment. This led to the increase in sales and profits for all three companies. Thus it is obvious that the each player did not have a focus strategy rather they had the multiple segments in mind that cater to different needs of the customers. Though each one started with the focus strategy and later looked into the multiple segments.

India is market with highly demanding, intelligent and well informed customers. The market where the huge opportunity lies is in upper middle class and middle class , where huge population is. Though they may be little constrained by the limited purchasing power, this is countered with the attractive finance options. So by giving the offers in bundle the constraints are some what minimized. But for the purchasing power to increase only constant economic growth and equal distribution of wealth is required. Though constant economic growth can be seen but the equal distribution of wealth is what the worrying factor. This may be due to the socio economic structure. Now the people who would have the intent on purchasing a vehicle would obviously start from entry level models.

Indian consumers is very price sensitive in one study conducted by National Council of Applied and Economic Research (NCAER), every one unit decrease in price of a car results in demand increasing by 1.8. So, assuming a manufacturing cost of Rs 2 lakh and an on-road price-tag of Rs 3 lakh, an 8 per cent reduction in excise will result in a 5 per cent drop in the final price. This should result in the demand rising by 1.8 times or 9 per cent.

In the recent years the entry level model is slightly shifting from A-segment to B and C segment vehicles. But still the entry level car is considered to be both A-Segment and B-segment vehicles. Only in these two segments we have the huge sale which captures around 70%- 75% of the entire passenger cars. Other segments continue to provide the numbers but are still far behind to be considered the entry level vehicles. They are expected to move up the value chain but this will be at lesser rate.

So for the new player to enter into this huge market of B segment cars they have to follow the leader or they have to provide the unique value or cater to the niche market to get huge volumes. This is dominated by Maruti, Tata Motors and Hyundai. So the existing players will have a clear edge over competitors and the new entrants.

ANALYSIS & INTERPRETATION OF SURVEY.

A survey was conducted in Bangalore City, to analyze and test the following concepts:

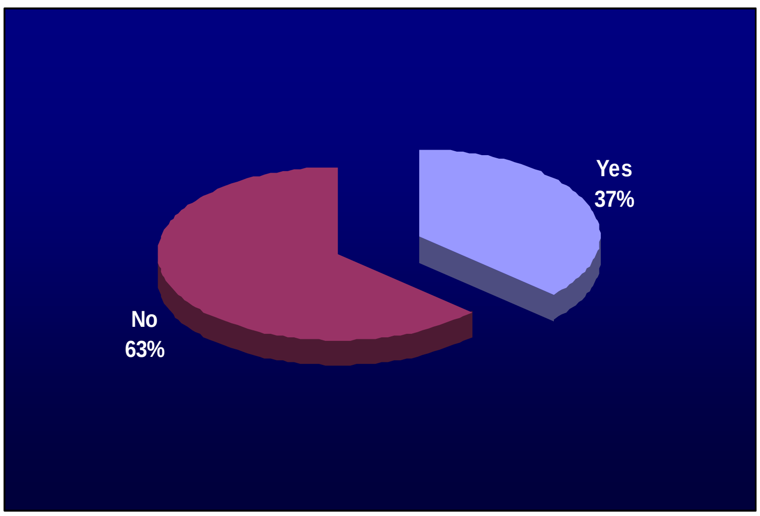
- ✓ **Awareness of availability of small cars in the market.**
- ✓ **Importance of small car in once life.**
- ✓ **Expectation from the small car.**

- ✓ **Things influencing the buying decision.**
- ✓ **People influencing the buying decision.**
- ✓ **Brand awareness.**
- ✓ **Expectation from Toyota.**

❖ **Table showing number of people owning a Toyata car.**

Yes	11
No	19
Total	**30**

CHART 1

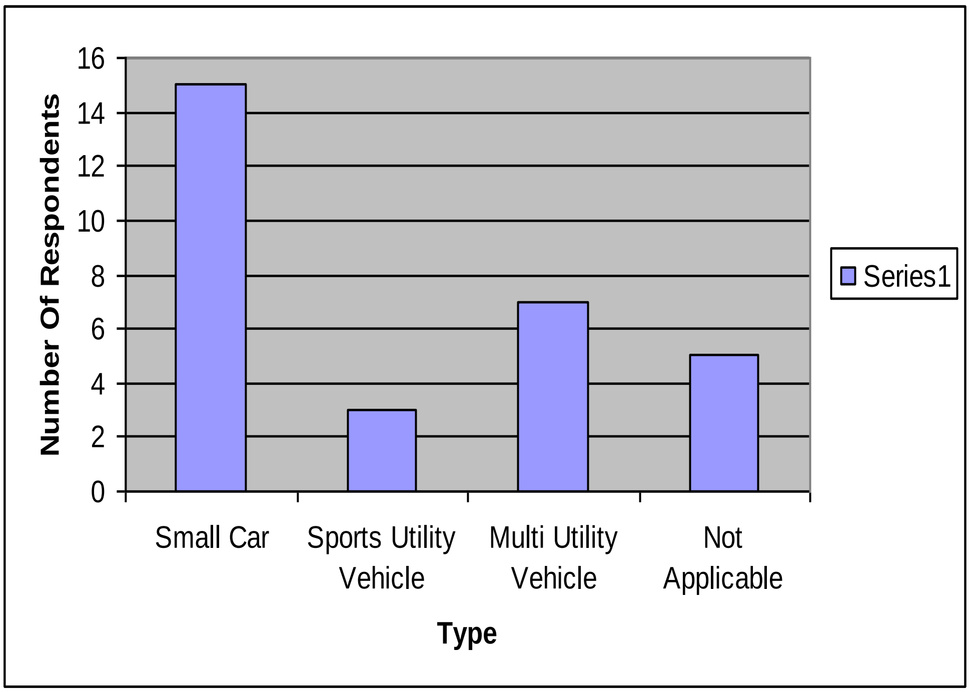


❖ **Table showing type of car owned.**

Type	Respondents
Small Car	15

Sports Utility Vehicle	3
Multi Utility Vehicle	7
Not Applicable	5
Total	**30**

CHART 2

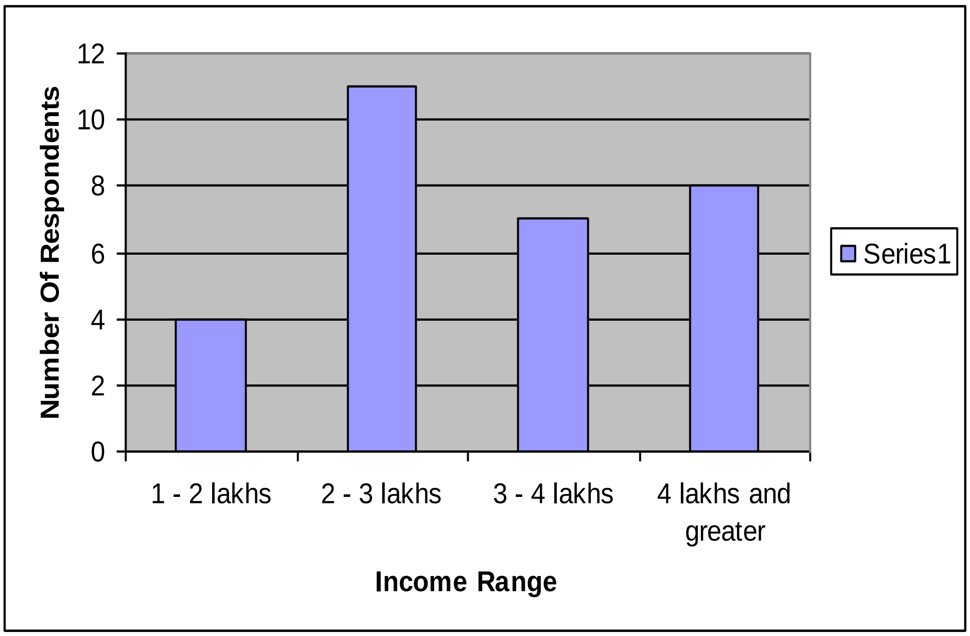


❖ **Table showing the income group.**

Income Group	Respondents
1 - 2 lakhs	4
2 - 3 lakhs	11
3 - 4 lakhs	7

4 lakhs and greater	8
Total	**30**

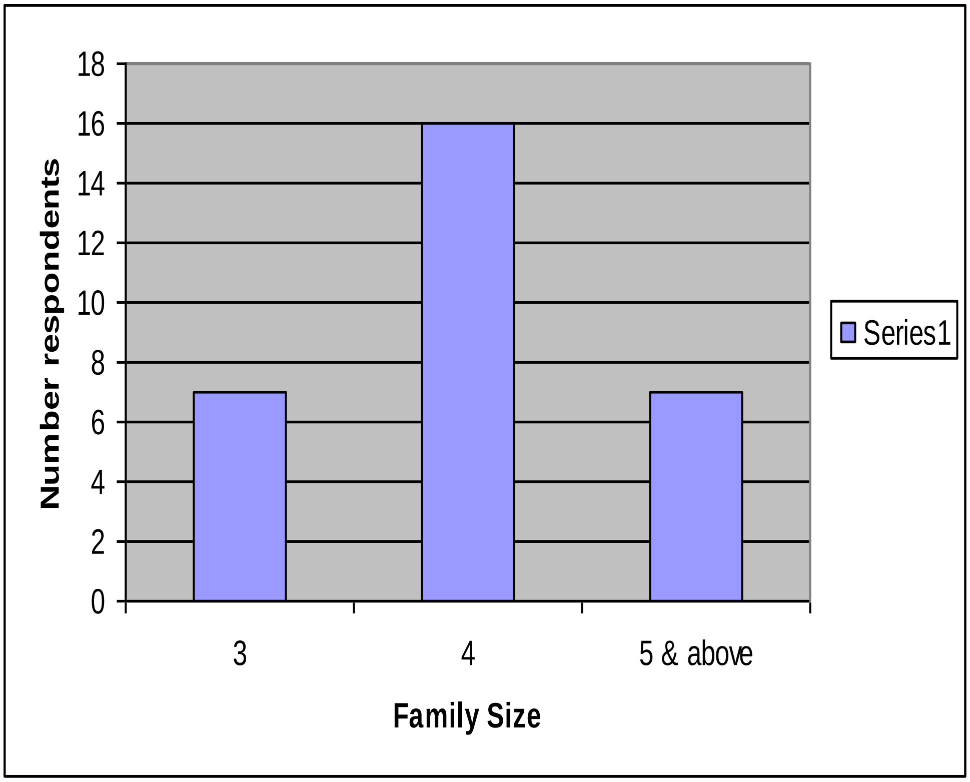
CHART 3



❖ **Table showing family size**

Family Size	Number Of Respondents
3	7
4	16
5 & above	7
Total	**30**

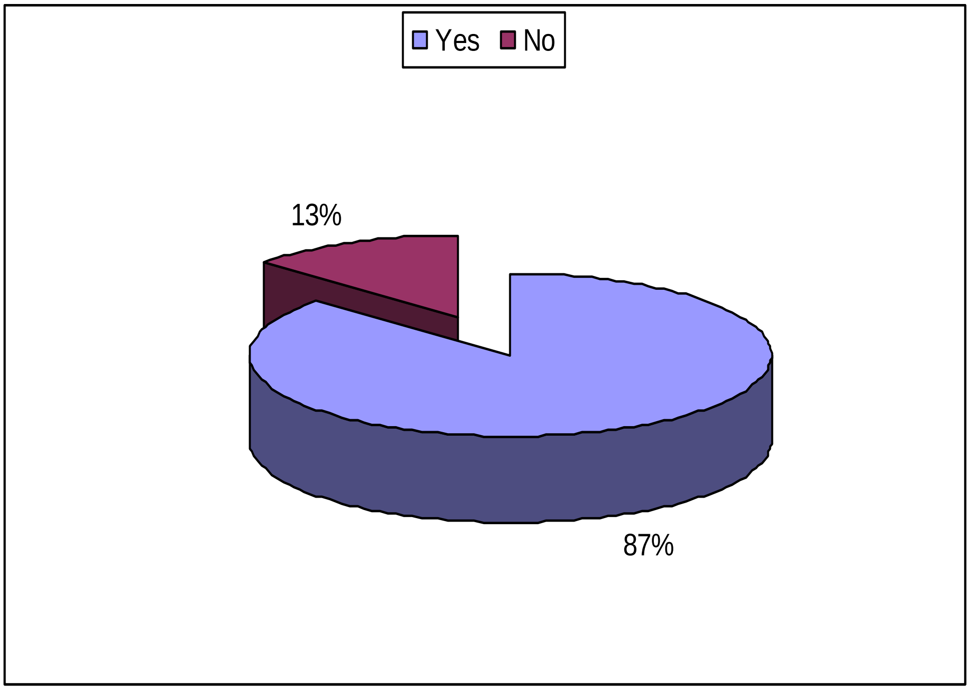
CHART 4



❖ **Table Showing Willingness to Buy a Small Car.**

Yes	26
No	4
Total	**30**

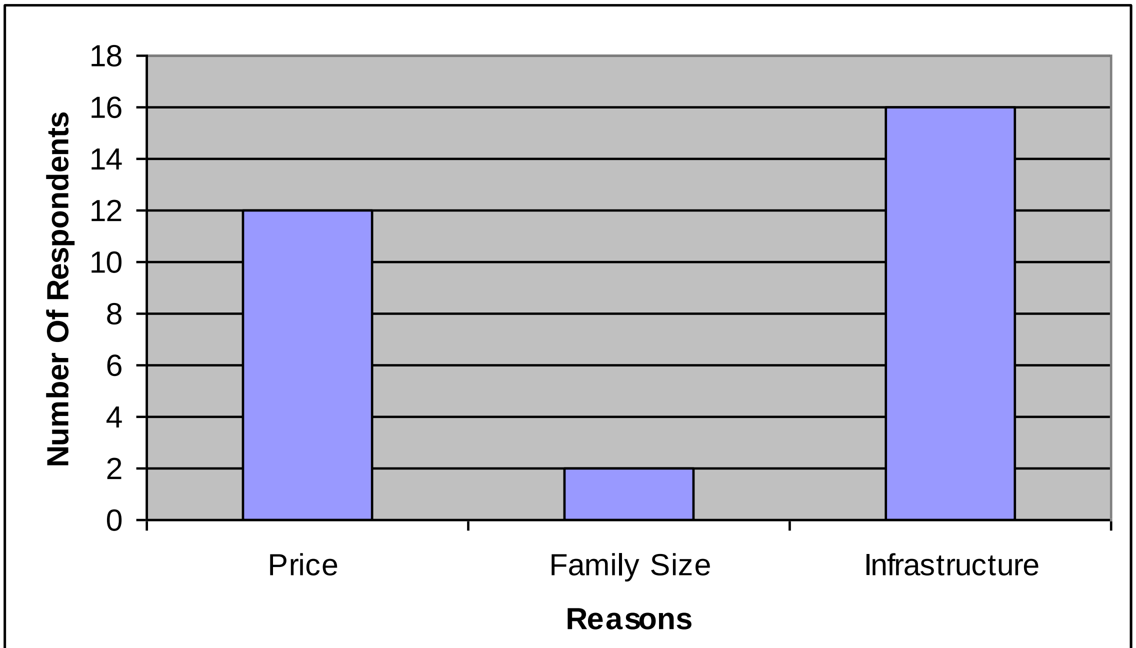
CHART 5



- **Table Showing Reason to Own a Small Car.**

Reason	Number Of Respondents
Price	12
Family Size	2
Infrastructure	16
Total	**30**

CHART 6

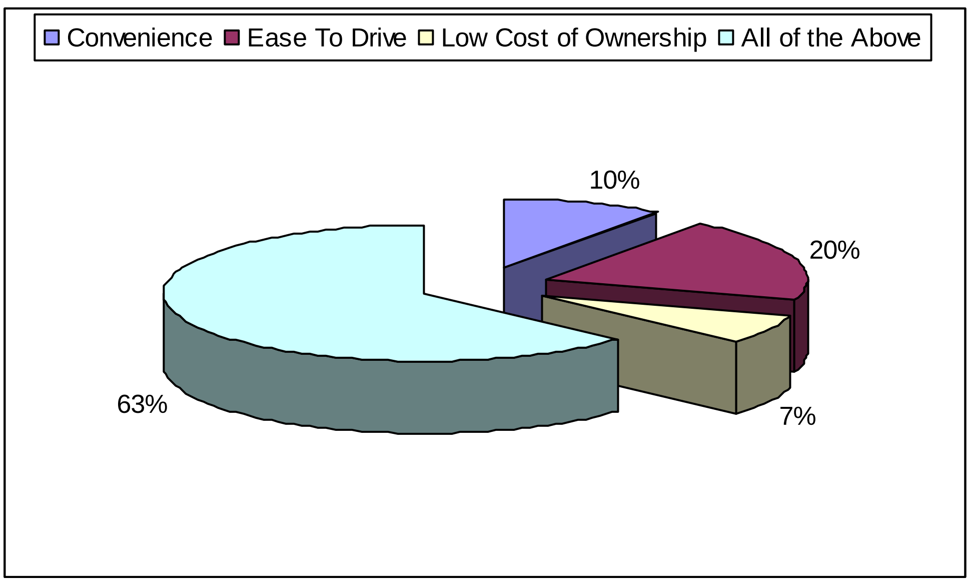


18
16
14
12
10
8
6
4
2
0
Number Of Respondents
Price
Family Size
Infrastructure
Reasons

- **Table Showing Perception About Small Car.**

Perception	Number Of Respondents
Convenience	3
Ease To Drive	6
Low Cost of Ownership	2
All of the Above	19
Total	**30**

CHART 7

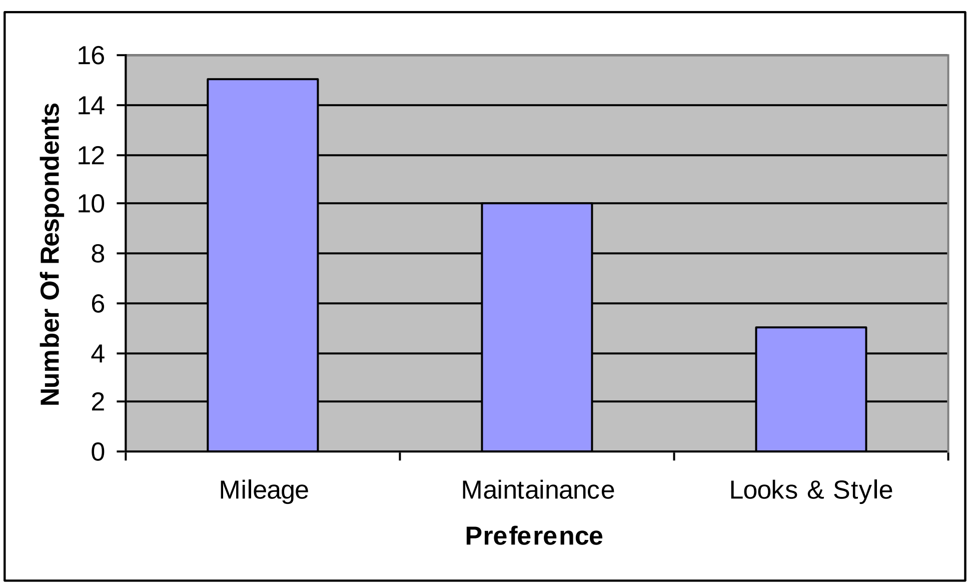


Convenience
Ease To Drive
Low Cost of Ownership
All of the Above
10%
20%
7%
63%

- **Table Showing Wants in Small Car.**

Wants	Number Of Respondents
Mileage	15
Maintenance	10
Looks & Style	5
Total	**30**

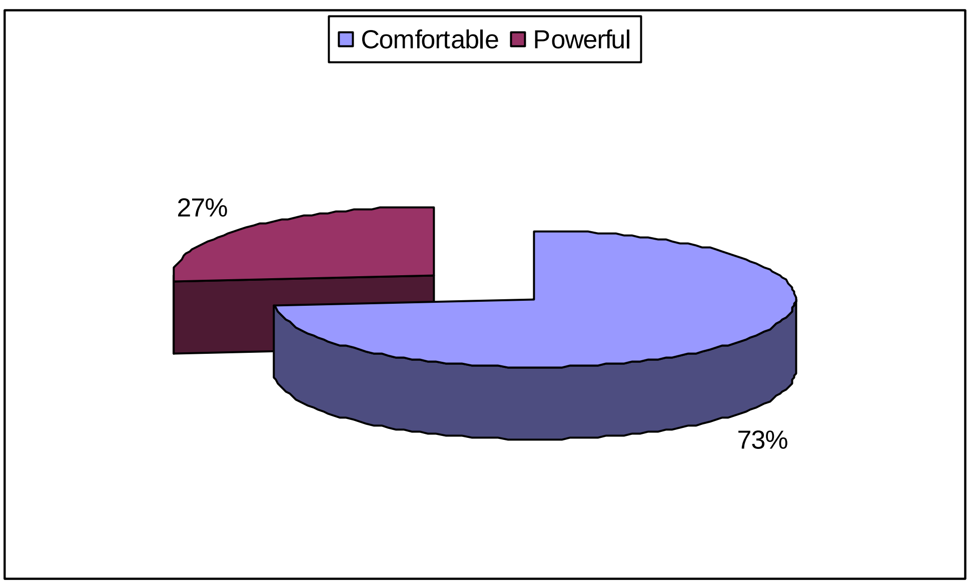
CHART 8



❖ **Table Showing Preferences in Small Car.**

Prefrence	Number Of Respondents
Comfortable	22
Powerful	8
Total	30

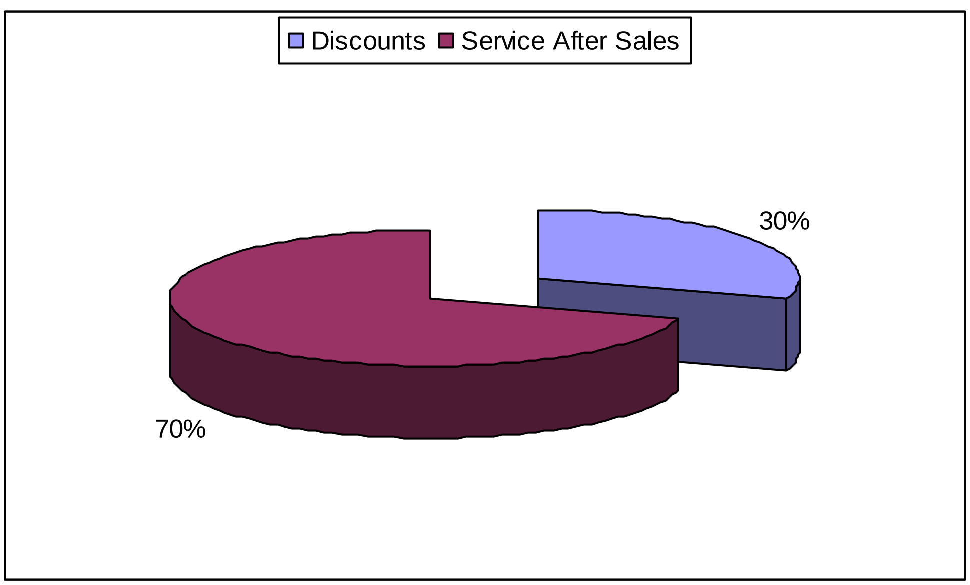
CHART 9



❖ **Table Showing Things that Attract while Making Buying Decision.**

Offers	Number Of Respondents
Discounts	9
Service After Sales	21
Total	**30**

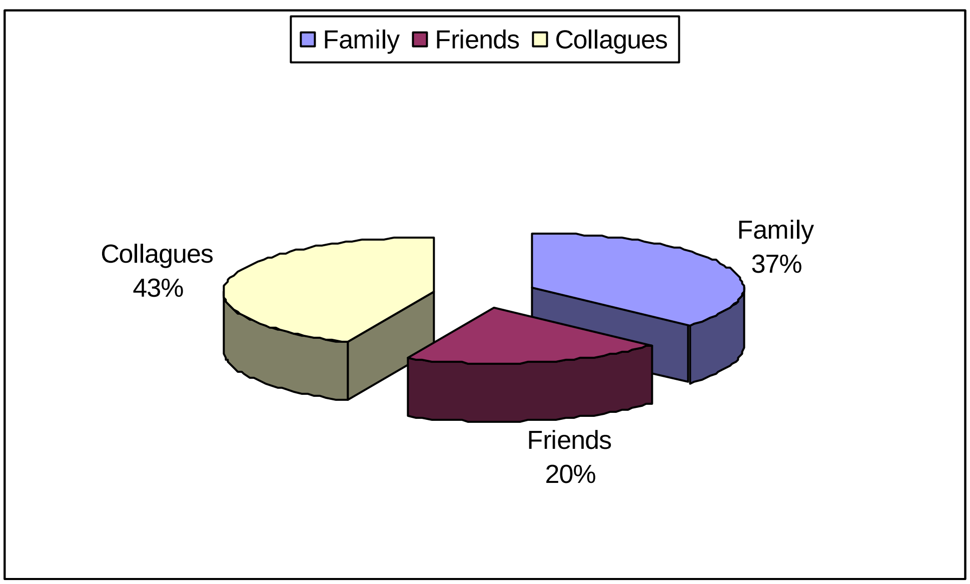
CHART 10



❖ **Table Showing People Influencing the Buying Decision.**

People Influencing	Number Of Respondents
Family	11
Friends	6
Colleagues	13
Total	**30**

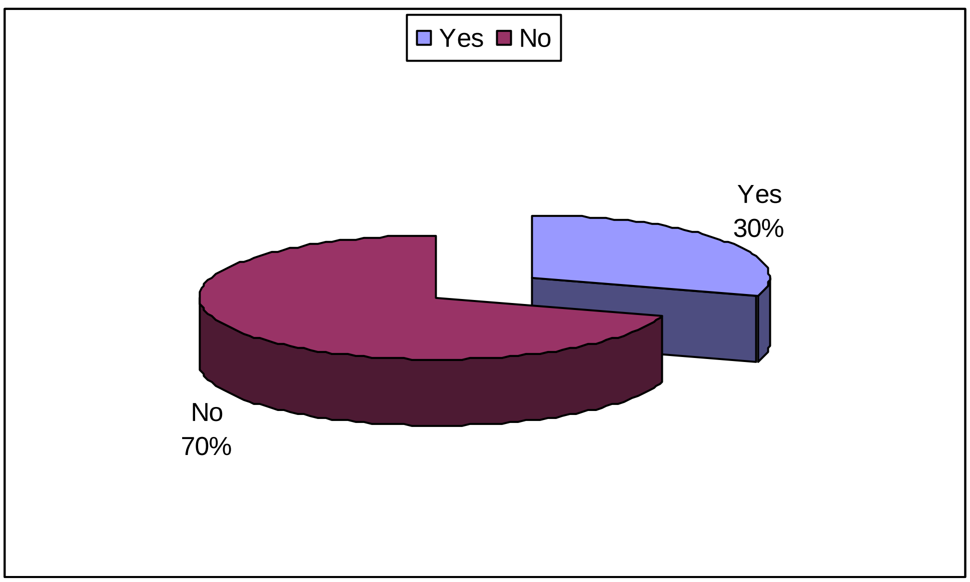
CHART 11



❖ **Table Showing Awareness of Toyota entering Small Car segment.**

Awareness	Number Of Respondents
Yes	9
No	21
Total	**30**

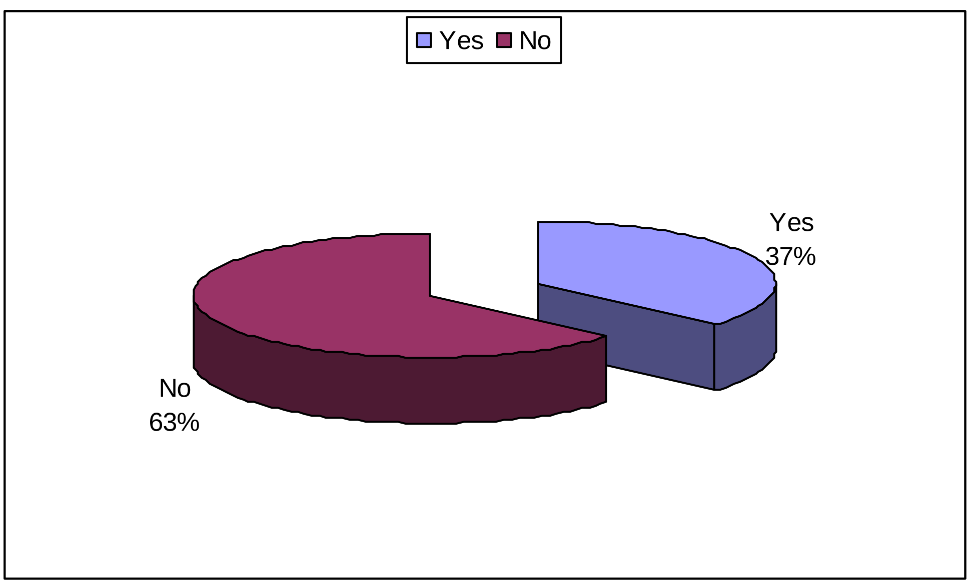
CHART 12



❖ **Table Showing Options Available in Market.**

Awareness	Number Of Respondents
Yes	11
No	19
Total	**30**

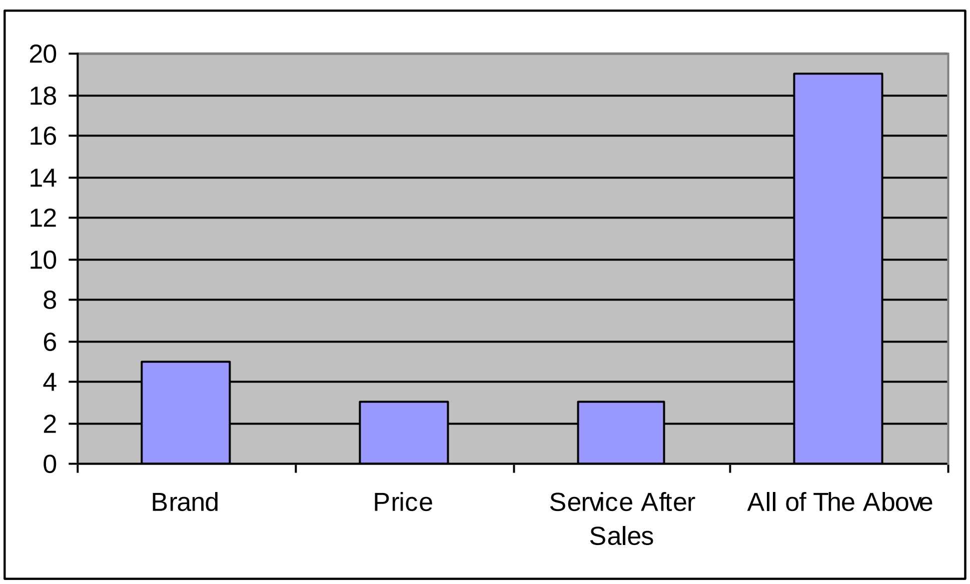
CHART 13



❖ **Table Showing Reasons for Preferring Toyota.**

Reasons	Number Of Respondents
Brand	5
Price	3
Service After Sales	3
All of The Above	19
Total	**30**

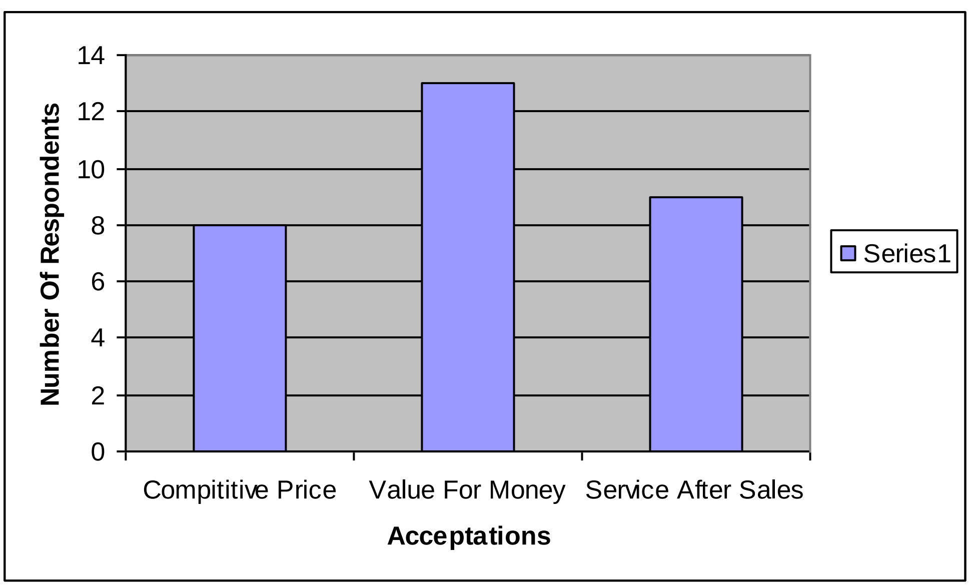
CHART 14



❖ **Table showing expectations from Toyota.**

Acceptation From Toyota	Number Of Respondents
Competitive Price	8
Value For Money	13
Service After Sales	9
Total	**30**

CHART 15



Analysis:

- 87 % people want to own a small car.
- The reason most of them want to own one is:
  - Price
  - Infrastructure.
- 63 % want to own due to the convenience.
- 84 % prefer better mileage & less maintenance in Small cars.
- 73 % looks for comfort in small car.
- 70 % wants better service after sales.
- People influencing the buying decision are:
  - Colleagues 43 %
  - Family 37 %
- 70 % are not aware Toyota entering in to small cars.
- 43 % opt Toyota as they get value for their money.
- 63 % look from brand, price & service.

Inference:

The study shows that high percentage of people wants to have a small car, the reason been heavy traffic and bad infrastructure. High percentage of people want comfort rather than speed, good mileage, less maintenance & better service after sales. Most of them look for brand, price & service facilities before making a buying decision.

Majority of them think they have fewer options while making a choice, hence want other brands to enter the segment.

Motivations

For a small car segment some of the motivation factors are

- Price
- Benefits/ ease of usage/ low cost of ownership
- Service
- Brand
- Comfort
- Reliability/ Maintenance Free

These are the some of the motivational factors that drive the customers to buy a small car. So Toyota has to concentrate on all these motivational factors.

Unmet Needs

There are so many players catering to different segments ranging from A-segment to luxury vehicles. Now looking at the current scenario there are no players in 1000 cc, 1200 cc and in 1500 cc. Earlier Maruti had Zen in 1000 cc category, production of which is recently been stopped. And there are no players in other two categories mentioned above. So these are the two categories that Toyota needs to concentrate on, though they can look at other options like in the categories that the major business is coming from in the B-segment (800 cc- 1100 cc). These categories are dominated by Maruti and Hyundai, while 1400 cc is dominated by Tata Motors. Maruti captured the niche market by launching Swift in B+ segment with 1300 cc car.

Now we have identified the categories that Toyota needs to concentrate, we will now look into what are the exact unmet needs of the customers who are using the vehicles ie passenger cars. This can be done by using the J D power satisfaction survey which gives us the idea of where exactly the competition is leading and lagging. This can be done by using both the SSI (Sales Satisfaction Index) and CSI (Customer satisfaction Index) scores. SSI measures sales excellence through the following parameters like Sales experience, Explanation at Delivery, Price evaluation, Delivery timings, Sales person knowledge post delivery contact. Similarly CSI will measure the customer satisfaction in terms of the after service satisfaction which will evaluate the factors like Service experience, Service delivery, Problems experienced, Service quality, Service initiation, Service personnel. The two charts (refer appendix) will give us the idea of where manufacturers lie.

From the two charts (refer appendix) it is clear that Maruti is the No 1 in both SSI and CSI. Maruti happens to be the leader from the past five years. Now if we see Tata in both CSI and SSI it is lagging behind in both SSI and CSI. So it is evident that customers are not satisfied in terms of sales process and after sales service that is provided by them.

And majority of the Tata motors sales comes from the Indica and that too petrol version. So we see and unmet need that is arising out of the JD power survey.

If we consider Hyundai they are above Toyota in CSI where as they are below Toyota in terms of SSI. So customers of Hyundai are not that satisfied with sales process and they are satisfied in after sales service, though both are below the industry average.

5.1.2 COMPETITOR ANALYSIS

The major competitors for Toyota in this particular segment are Maruti Udyog Ltd, Hyundai Motors, Tata Motors, Ford India, and Chevrolet. From the above the intense competition is expected from Maruti, Tata and Hyundai. Since these players have established themselves in this particular segment and taste and preference of the Indian customers. Now we will look into the top three competitors i.e. Maruti Udyog ltd, Tata Motors and Hyundai Motors and their strengths and weakness

Maruti

In February 1981 Maruti Udyog Limited (MUL) was incorporated under the provisions of the Indian Companies Act, 1956. It was established to meet the growing demand of a personal mode of transport caused by the lack of an efficient public transport system. A license and Joint Venture Agreement was signed between Government of India and Suzuki Motor Company (now Suzuki Motor Corporation of Japan) in October 1982. It manufactured India's first affordable cars. In the past twenty years it has diversified into various type of passenger cars catering to the need of different section of the population.

Maruti is the one that will give Toyota a run for its money because of its reach by its sales and service network, which is best in the industry this can be substantiated with its JD power ranking for five successive years. Maruti has a huge presence in A- segment with Maruti-800 and Omni, in B-segment with Alto, Zen and Wagon-R. The production of Zen has been stopped in first quarter of this financial year and they are planning to come up with all new Zen. So presently they have Alto and Wagon-R in the B-segment. In A-segment it has no competition, till early 2004 Maruti 800 was the number one selling vehicle in India, which was later overtaken by Alto. Till this date Alto has been able to keep up its leadership position.

Maruti competes with Hyundai in this particular segment; Hyundai has been able to get significant numbers with its pet product Santro (which is called the tall boy design). It was launched earlier to the Wagon-R, which is a direct competitor to this product of Maruti. This was one of the major mistakes that Maruti made i.e. by launching Wagon-R little late compared to the Hyundai. Hence in this particular category of vehicles Santro has been able to beat Maruti’s Wagon-R. This is because of the advantages that it gained by early entry and by giving better fuel efficient vehicle. Another factor that hampered the sales of Wagon-R is the design (which said to be of box type). To counter this we see that it is constantly changing the exteriors looks, so as to make it more attractive one. With the latest up gradation took place last month. Now the vehicle looks attractive one compared to the earlier one.

Maruti grip on the B-segment was tightened because of the three products that it had to offer and that too at different engine capacity. So the total sales of the all the three vehicles were above the nearest competitor. But individually Hyundai's Santro had the largest sales till the early part of 2004. But after that Maruti came up with new idea of stopping the production of Alto's 1100 cc version. And they kept only 800 cc version of the same. And they reduced the price of the vehicle. This made the Alto number one in terms of sales and thereby it overtook Maruti-800.

Now we will look into the strengths and weakness of Maruti

Strengths

- High market share and Brand equity.
- Excellent dealer network (325 state of art showrooms across 197 cities) and Service facility (1995 authorized service station in 1052 cities).
- Single window concept/ all under one roof (New vehicle, Finance, Insurance, Accessories, and Exchange).
- Lowest cost of operation/km.
- No 1 in SSI and CSI from past five years.
- Collaboration with Suzuki.
- Economies of scale.
- Vehicle catering to each segment starting with a price of 2.2 lac – 19 lac.
- Sound financial resources.

Weakness

- No or zero presence in diesel vehicle segment which is growing at 20%.
- High internal competition.
- Reacted little late to the competition.
- Low market share in C, D and MUV segment vehicles.

Tata Motors

Tata Motors is one of the leading and largest in the Indian automobile industry with its strong presence in MUV, B-segment with Indica and in C-segment with Indigo. It had revenue of around 24000 crores in the year 2005-06. Synonym of Tata motors in India is 'Trust'.

The star in Tata's portfolio today is the small car, Indica, designed in Italy, but manufactured in India as an almost completely indigenous effort. Indica was rolled out in the year 1998. It became the fastest selling car in less than 18 months. The car has a distinctive look and though it had some problem with the Engine but it later rectified the problem and it launched a new product in the same segment by name Indica V2. Tata Indica has both petrol and Diesel versions. It is the Market leader in Diesel Variant with not much competition. As recently Maruti withdrew its Diesel version of Zen, Indica has some competition from Fiat Palio (diesel). It has a market share of around 12.8% in the total passenger car market. Also Tata ventured into C Segment by launching INDIGO in 2003. This is also available in two variants diesel and petrol. Now this is the market leader in the C-segment because of low price, which makes the low initial cost the buyers. In total Tata has a market share of 17.3% of the B and C-segment. This market share was possible because of the aggressive pricing as its strategy, by giving more value for the money.

If we evaluate the performance of the Tata Motors by looking into the ranking it has got in the JD power survey of both the CSI and SSI (refer appendix), we see that it well below the industry average. Hence it is clear that Tata Motors has poor service and sales reputation with its customers. This will hamper their growth in future.

Now Tata Motors is on the verge of manufacturing the one lac car, which is eagerly awaited in the entire Indian automobile industry. This will prove to be a major competition to the other small cars in A and B segment not directly but indirectly. The one lac car is expected to be launched in the fag end of year 2008.

Now we look into the strengths and weakness of Tata Motors

Strengths

- Good brand image of Tata.
- Market leader in diesel (B-segment) and in C-segment vehicles
- Tie up with Fiat may lead to access to new technology and new market.
- Sound financial resources. (Backing from the parent co)

- Least cost diesel car producer
- Vehicles perceived to be more value for money.
- Relatively good distribution channel.

Weakness

- Poor SSI and CSI scores which is below the industry average.
- Comparatively not technically advanced vehicles.
- Single window concept not adopted.

Hyundai Motors:

Hyundai Motors India Limited (HIML) was established in 1996. It is a wholly owned subsidiary of Hyundai Motor Company, South Korean multi-national. Hyundai Motors India Limited is the fastest growing car manufacturer in India. Hyundai Santro is the most preferred car in the section of small passenger cars. The 26 variants of passenger car in 6 segments caters to the need of a large section of Indian population.

HIML has a fully integrated state-of-art manufacturing plant at Irrungattukatoi near Chennai. It is also setting up its second production unit adjacent to the existing one to meet the growing demand.

One of the top three competitors for Toyota, in the passenger car segment (small car). The South Korean major entered India with its small car offering Santro. Initially the car was not accepted by the Indian consumers, because they were new to the concept of the Tall Boy Design. But later the car because of its better mileage and looks captured the B- segment market. At that time Maruti’s Zen was the leader. After it had success with Santro the company came up with Accent (Petrol) version. This vehicle overtook the Maruti’s Esteem.

Gradually the company increased the market share and became one of the major competitors for the market leader Maruti. Later on by looking at the opportunity it came up with diesel version of the Accent. Then it launched vehicles in D-segment (Sonata later changed to Sonata Emberra). Vehicle in the SUV (Tuscon)

From the Hyundai Toyota would face competition from the Santro Xing. It has captured the B-segment market in 1100 cc category. Now Wagon-R is slowly catching up with the Santro Xing. Santro has captured a market share of 12.2% in entire passenger car segment. The vehicle it launched to capture the B+ segment (Getz) did not do well. This is because of the launch of Maruti's Swift which has captured the B+ segment market. Hyundai had the first mover advantage then also it could not capture the market. Now Getz has a market share of 1.9%. Swift has market share of 7.7%.With just two years from the launch of the vehicle. From this we know that major competition would be from the Santro Xing.

It has a state of the art manufacturing plant near Chennai with some of th most advanced production, quality and testing capabilities in the country. Recently it has announced of investing to setup a second plant which will produce around 3 lacs units per year . in this way they are planning to reach the total production capacity of 6 lacs per annum by the year 2007. in this way it is expanding its capacity to position the Indian plant as the global export hub for the compact cars. it is also giving importance to the dealer network by expanding from 157 to 200 and planning to expand the service network by increasing it to 1000 in this year.

Now we will look into the Strength and weakness of Hyundai Motors

Strengths

- Wide range of products to suite the Indian customers.

- Ability to come up with new technology (ex Crdi (Common Rail Direct Injection))
- Understanding the consumer requirements.
- Tapping the opportunity that exists and coming up with the product to increase the market share.
- Number two in terms of market share (excluding MUV's)
- Success of products like Santro and Accent (Petrol and Diesel)

Weakness

- No presence in small car (diesel segment) and in MUV's.
- Relatively lower SSI and CSI scores.
- Does not have the finance wing like what Maruti has i.e. Maruti finance and single window concept is not observed.
- Relatively less number of dealer networks.

These are the major competitors that Toyota is expected to face. But there are other companies that are likely to enter small car market which has huge opportunity. Like for ex Nissan in partnership with Maruti Suzuki, Volkswagen, and Chevrolet. But it is the top three that is going to give tough competition to Toyota. Now that we have identified what are the strengths and weakness of all the major players, now we have to develop the strategies based on these by working on our strengths and capitalizing on the weakness of the competitors.

Outcome of competitor analysis:

- Maruti has a strong presence in the small car segment and it has better sales and service network, apart from brand equity and loyalty that it has.
- There is no strong player in small car (diesel segment), though Tata Motors is present. But if we look at the SSI and CSI scores they are not good and it reveals that customers are not satisfied with the sales and service of Tata Motors.
- There is gap that exists in 1000 cc ,1200 cc and 1500 cc segment with no vehicles present in these two categories though opportunity exist in the entire small car segment.
- Strong growth is seen in B+ segment which has been captured by Maruti's Swift, and Hyundai Getz which is at distant second. Opportunity is there to tap.

5.1.3 MARKET ANALYSIS

One of the primary objectives of a market analysis is to determine the attractiveness of a market to current and potential participants. By this we will know the market attractiveness i.e. the market profit potential which is measured by the long term return on investment achieved decision. But by participating in the attractive market will not guarantee success for all players. Here not only the market attractiveness, but also we need to consider the firms strengths and weaknesses will match up against the competitors. The second objective of market analysis is to understand the dynamics of the market. The need is to identify emerging key success factors, trends, threats, opportunities and strategic uncertainties that can guide information gathering and analysis.

Size : The total passenger vehicles sale in the year 2005-06 is 1143037[1] in which the passenger cars sale was 882094[1]. The share of the passenger cars in the passenger vehicle segment is around 77%. The remaining is shared between the multi utility vehicle and multi purpose vehicles. From this we see that it is a huge market and the penetration to maximum extent is still not there. This is the opportunities that a new entrant will be looking for.

Projected Growth

The automobile industry grew by 13% in the previous year [2]. The passenger vehicle grew by 8%. The figure in the passenger vehicle will include MUV's and MPV's. If we take the recent figures the industry grew by around 20% in the first quarter whereas the passenger car grew by 23.72%. The projected demand for passenger car segment is around 2 million in the year 2010 and 3 million in the year 2015[2].

This is the future opportunities that the players can tap into. The future demand is expected to touch 3 million. Hence there is huge opportunity that the entrants can look for. This can be done by having small cars to meet the expected rise in demand.

Profitability Because of the presence of many players in the market, the profitability that the manufacturers make is determined by the amount of competition prevailing in the market. If the competition is more the profit made is less, further analysis will be made in the porter's five force model.

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1 SIAM (SOCIETY OF INDIAN AUTOMOBILE MANUFACUTURERS), INDIA

2 ACMA (AUTOMOBILE COMPONENT MANUFACTURERS ASSOCIATION)

PORTERS FIVE FORCE ANALYSIS

Porter's five force views the profitability of an industry as determined by the five sources of competitive pressure. These five forces of competition include Horizontal competition from substitutes, threat from new entrants and competition, and competition from established producers and two sources of vertical competition the bargaining power of suppliers and buyers. The following is a view of the Indian automobile industry from these five angles leading to the expected changes in the years to come,

Threat from new entrants

The de regulation of the Indian economy has encouraged foreign auto giants like Volkswagen, BMW to enter the Indian markets and make heavy investments in India and offer quality cars for affordable prices. This can be a major threat to the existing players.

Economies of Scale.

Automobile industry is a capital intensive industry. To have the economies of scale after investing heavily they need to get the huge numbers, this is difficult unless and until you have small car in your product line. So the economies of scale would be significant entry barrier for the new entrant. So It is difficult to survive in the market unless and until you attain the economies of scale. And if a company invest heavily and finds that it is underutilizing its capacity, so there will not return on investment. As pointed out in the trends that there would be huge surge in the demand for the passenger cars especially the small cars. To meet this opportunity and to gain economies of scale it would be advisable to have a small car in the product line.

Government Policy

Government policies till 1991 acted as a significant entry barrier for a new player in automobile industry. Later government encouraged Liberalization, privatization, globalization (L,P,G) which they opposed earlier. This removed the entry barrier to most of the automobile majors. Now 100% FDI allowed in the automobile sector. This has encouraged many global majors to set up their manufacturing hub in India. In the last union budget the finance minister gave excise duty cut to the passenger car which falls in particular length. This was done to make India the export hub for the small cars. the result of this can be seen with Nissan joining hands with Maruti Udyog ltd to jointly manufacture the small cars and export it into the other countries. Other people who are setting their manufacturing base are Volkswagen and BMW. But still the excise duty on the bigger vehicle still remains at 24%. India is Still ranks high on the tax collected on a new vehicle this may be through the excise duty road tax etc. In Karnataka the road tax collected is approximately 11% on the ex-show room price of new vehicle. For ex if ex-show room price of a new vehicle is 3lacs now the road tax is 33000.

Huge investments

Huge investments that is required to set up the facility ie manufacturing and to look out for the dealers would call for the huge investments. This will act as an entry barrier for the new entrants. Hence companies with sound financials could afford to make such a huge investment which would be about Rs 1147 crores, which Toyota is planning to make in its second plant. There is huge investment that is called to set up distribution network and to have sound supply source. Apart from the investment that is called for to develop the new product, hence the huge investment that is called for would act as a significant barrier for a new entrant.

Inference

- Opening of the economy through LPG programme has some what reduced the entry barrier that has been created by the government policy before opening of the economy.
- But to attain the economies of scale and huge investment required would still act as an entry barrier for the new entrants. Hence the entry barrier for a new entrant is high. And threat of the new entrants is also high this is substantiated with Nissan, BMW and Volkswagen entering India.

Competition from the substitutes

Inadequate Public transport system.

Though there has been a greater importance given to the infrastructure especially roads, like the golden quadrangle, and huge investment seen in the construction of roads. But still public transport system in India is not only inadequate by it is poor in quality. This scenario is not expected to change drastically in the coming years. Still more is expected to make the public transport system effective and desirable. Even the metro rail is being used in places like Delhi, Mumbai and Chennai. Other cities are facing bureaucratic hassles, to clear the project (ex Bangalore).

Electric cars and Hybrid cars

All the major manufacturers have developed and marketing the electric and Hybrid cars. but this scenario in the western countries , due to very strict pollution norms. But the major manufacturers like Toyota and Honda have invested heavily in developing the Hybrid cars and Toyota has even captured the European market with its Hybrid car Prius which is largest selling in that country. The concept of electric car in India is in very nacent stage. Electric car was first introduced in India by the Indian company Maini group with a foreign collaboration. Reva was the first electric to be launched in India.

However these technologies like electric and Hybrid cars would require considerable length of time to become successful commercially. Also one of the draw back of the Hybrid cars would the high initial payment ie because of the higher price since this would be a new concept car, and it is highly technical and obviously at a higher price.

Two wheelers

India is one of the largest markets for two wheelers and it is the largest producer of two wheelers. Since price difference between two wheelers and a small car is high, hence the competition from the two wheelers is less.

Inference

- The lack of adequate public transportation system and electric and hybrid cars are yet to gain the market. Hence we can say that the threat form the substitutes would be less.

Competitive rivalry within the industry

Established players

The industry is dominated by passenger car which accounts for major portion of the entire car sales. The major players dominating the industry are Maruti udyog ltd, Hyundai motors and Tata motors. Especially each player is trying to gain the major pie in the passenger car segment. Maruti is clear leader with its Alto the no 1 selling vehicle. The major competition is being seen in the small car segment and in C- segment where many players have entered to capture the market. Hence there are constant price cuts through discounts and bundle offers that the competitors are offering to the consumers. This is how Maruti was able to increase the sales of Alto by cutting down on the price and there by increasing sales. Another example may be the discounts offered for the Swift for one month at the launch so as to get higher sales figures. The competition from the existing players in the industry is high.

Market leaders

As we saw in our competitor analysis the major players are market leaders in some segments. For ex Maruti is the market leader with a share of 54%. And it is leader in the small car segment. And Tata motors are the market leader in small car (diesel segment). And it is market leader in the C- segment vehicles. Hyundai is also has gained a huge market with its two of its successive products like Santro and Accent. From this it is clear that the market is dominated by diverse players with particular product that is targeted at a particular segment. Tata and Hyundai have eaten into the market share of Maruti which had a market share of 80% in the fag end of nineties.

Better technology

Technology has played a major role, and the existing players were look out for the new technology so that they would increase their market share. By this they want to differentiate themselves with the other competitors. For ex Maruti came up with EPS (Electronic Power Steering) while its competitors provided with Hydraulic power steering. Other ex is Maruti coming with 16 bit Microprocessor in the vehicle, MPFI (Multi Point Fuel Injection) type of engine. By all this features what they are doing is giving benefits to the customer and showing what benefits that the customer is getting with all this features. This is possible only if company is able to give better technology products to customers and differentiate from the rest.

Exit Barriers

The presence of the existing players and possible entry of the new players would increase the competition. To counter the competition the companies that have invested heavily on its manufacturing capacity and other investments would like to get volumes. This is done through price cuts. This will lead to subsequent reaction from the competitors. This is because the industry has a high exit barrier because of the huge investments that it would have made. Hence company cannot that easily shut the shop, and remove all its employees from the service. This will force the company to continue in the market and try to get more volumes through sales.

Inference

- This will lead to less profitability to the companies because the industry has high entry and exit barriers.
- Presence of the existing players and possible entry of new players would put pressure that would lead to price cuts this can affect the profitability of the company.

- Players need to differentiate themselves with its competitors by providing better technology at competitive prices. This would also affect the profitability.

Bargaining powers of the suppliers

The Indian automobile industry has major suppliers like MICO, EXIDE, BRIDGE STONE, BOSCH, TVS, MRF, CEAT,SONA STEERING,RANE MADRAS etc. automobile companies rely on these suppliers to a great extent for tyres, gear box, steering column and other major spares. These supplying companies are owned by major business houses and also have international operations. Since there are many suppliers for a particular part, this would increase the competition between the suppliers. This will lead to better bargaining power with the OEM's. Hence the bargaining power of the suppliers is less.

Bargaining power of the buyers

Price sensitive

Indian consumers are very price sensitive, especially in this compact or small car segment. This has proved by the survey conducted by NCEAR which said that every one unit decrease in price of a car results in demand increasing by 1.8. Since there are many players consumers have the choice to choose from. And they may go for a product that offers all the features at better price with same quality that they are looking for. Now they are looking for the initial payments that they have to pay and the annual maintenance cost that they would incur. And what is total cost of operations per Km. they want the service to be cheap and maintenance cost should be minimum. So the companies need to communicate by using better technology what are the monetary benefits that are being given to the consumer.

Demanding more

As the number players have increased there has been an intense competition and this has made the consumer to demand more. Like better service facility, one stop shop or single window concept, mobile service, bargaining for better discounts, quality products, better finance deals, maximum finance, hassle free transactions etc. This has made the manufacturers and dealers to invest heavily on all this service that is desired by the consumers.

Inference

- From the above analysis the bargaining power of the buyers is more. Because they are demanding more and presence of many players meant that they have choices to look from by all these factors the bargaining power of the buyer is more.

Distribution system

The distribution channel that is presently followed is of the dealers handling both the sales and the service part. This is the only distribution channel that is followed. The emerging distribution channel that is recently emerged is one that is planned by the ex

MD of the Hyundai in Hyderabad, in which several manufacturers come under one roof to sell their products. This is the only alternate channel that has emerged till now other than the traditional method i.e. through the dealers. Another channel that may emerge is through the internet, wherein the manufacturer will directly serve the customers. The chances of this type of channel structure, is distant possibility. Because customers would like to fell the product, touch and drive before choosing one. The customer would not be able to do the above activities in case of the internet model. Other factors that influence would be the price of the product that the customer pays. Other alternatives that were followed in the western market is that one dealer would serve all the manufactures product under one roof. But this model failed due to the internal competition, and customer got confused. Hence presently the effective means to reach the customers is through the dealers.

Trends

The trend that is seen the automobile industry is that people are looking for the product that gives benefits to them, may be in monetary terms, service provided by the dealers, high reselling price. The customer is more price sensitive; this can be substantiated when there is an price reduction for a product, the sales of the particular product has increased ex Maruti Swift. Growing middle class income is one of the important factors. Customers are directly buying the B and B+ segment vehicles. This has led to the decrease in the sales of the A-segment vehicles. And increased demand for the B and B+ segment vehicles. This can be attributed to the fact that finance schemes are available and most of the purchase is through finance. These financial institutions are giving competitive interest rates, which now is increasing due to the increase in the defaulters. This has led to number of privatized banks to close shops in vehicle loans department, ex Standard chartered, ABN-AMRO.

Key success factors

- Access to large population (with low penetration)
- Access to better technology
- To meet the unmet needs of the customer as seen in customer analysis
- Access to the resources that is required (Human resourse, finance resourse etc)
- Sourcing from the local auto component manufacturers which cost less
- Huge opportunity that is seen

5.1.4 ENVIRONMENTAL ANALYSIS

Government

In contrast over the past, Indian Government has switched over its role from controller to enabler. The focus is on providing better infrastructure, growth oriented economic policies and right environment to attract investments. Changes in excise taxes in the 2004/05 budgets have helped bring down the cost of imports, with reductions in the duty on alloy and non-alloy steel. The excise duty cut was made to make India as the small car hub for the major manufacturers. The result of this step is already showing with Suzuki planning to make India the small car manufacturing hub and Hyundai following them. Global majors like Nissan are also setting its facility with agreement with the MUL. But this excise cut is only done for the small cars, still the bigger cars suffers from the huge excise duty.

Meanwhile, the autos market has become more competitive and open, due to a reduction in excise duty on passenger vehicles from 24% to 16%. Additionally, the introduction of a uniform VAT system of taxation to replace the customer sales tax, which varies from state to state, will reduce market distortions and enhance industry competitiveness.

FDI Environment

Despite a raft of reforms introduced since the early 1990s, India's foreign investment regime remains tightly restricted. This has played a key role in preventing a more effective inward flow of foreign direct investment (FDI). In the 1985-1995 periods, annual average FDI inflows amounted to US$455mn. However, India has made significant strides since then, even if it is still some way from China's US$54bn levels. A key recent reform allows automatic FDI approval across a range of sectors, meaning that foreign investors need only notify the Reserve Bank of India (RBI) of their investments. Now100% FDI is allowed in this sector.

Economy

Economic condition of any country is a very significant factor for any company's environmental analysis. Economic indicator like disposable income plays an instrumental role in the determining market potential.

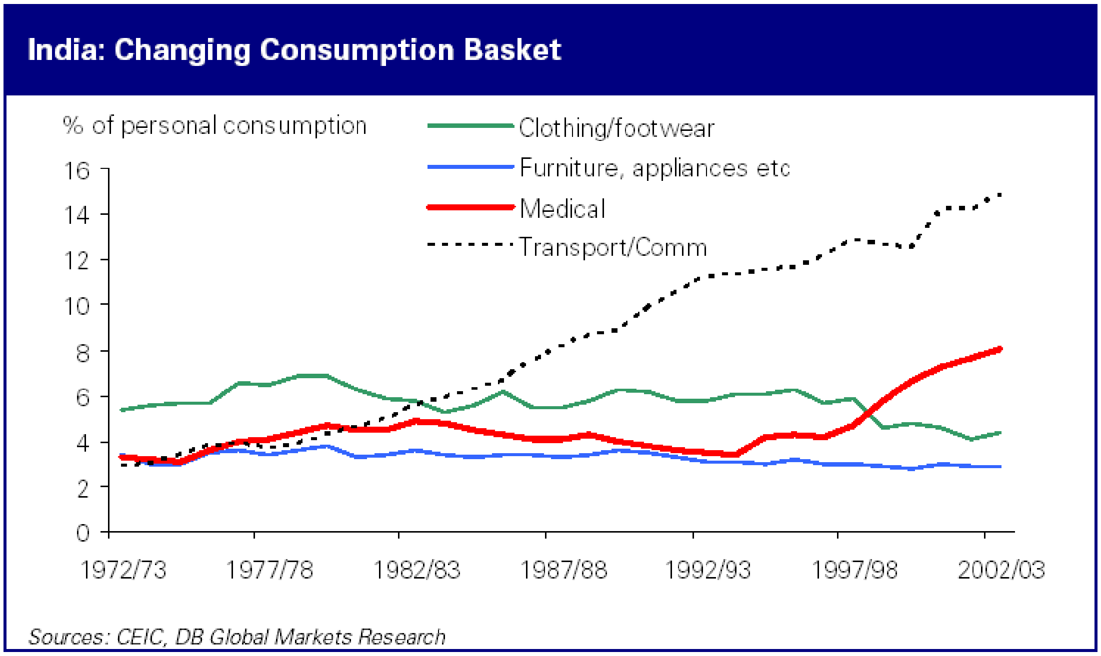
The current economic trends indicate the following:

- Continuous and Higher GDP Growth
- Increasing disposable Income
- Cheaper & easier finance Schemes

All the above economic trends are positive in nature. And these trends indicate that the economy is healthy and the purchasing power of the consumers is strong.

Demographics

The potentially large internal market offered by India has long tantalized both domestic and foreign investors. Over the last decade, per capita incomes have risen at the fastest pace in the country's history due to higher GDP growth. In this report we show how changes in income levels and demographics have already led to changes in consumption and savings patterns of Indian households. Instead, Indians seem to prefer spending more on motorcycles, cars, phones, and restaurants. Rising incomes and changing demographics have also led to higher savings rates. Instead of entrusting an increasing proportion of their savings in financial assets, Indians appear to be returning to physical assets.



IMPORTANT: PLEASE SEE ANALYST CERTIFICATION IMMEDIATELY AT THE END OF THE TEXT OF THIS REPORT. DEUTSCHE BANK DOES AND SEEKS TO DO BUSINESS WITH ISSUERS COVERED IN ITS REPORTS. AS A RESULT INVESTORS SHOULD BE AWARE THAT DEUTSCHE BANK MAY HAVE A CONFLICT OF INTEREST THAT COULD ADVERSELY AFFECT THE OBJECTIVITY OF ITS REPORTS. INVESTORS SHOULD CONSIDER THIS REPORT ONLY AS A SINGLE FACTOR IN MAKING THEIR INVESTMENT DECISION.

India is at an inflection point at which the increase in this share of the labour force is set to accelerate. In other words, India is entering the second stage of demographic transition where the share of its working age population is expected to increase over the next three decades. Most other Asian economies entered this demographic stage decade ago and some, especially Japan, have entered the next stage and are now aging rapidly. Spending on transport and communications has soared, and the pace of increase is accelerating. This increase in spending on transport and communications is very similar to that observed in other Asian countries but the shift has been much earlier stage in India. It is only in recent years (and at far higher income levels) that this category has accounted for 16% of the consumption basket in Thailand. Youth in India are affected by globalization of media, travels, fashions, and economic changes.

Youth in India form the majority of the population. India has embarked on economic, social, and political changes.

Technology

Emerging new technologies in the field of automobiles is changing the face of automobile industry.

- Earlier we had the petrol vehicles with the carburetor which now has become obsolete and people have adopted the injection system into the vehicle which is more fuel efficient.
- Now the combustion is being is controlled by the microprocessors like what MUL came up with 16- bit microprocessor for its Wagon-R and Alto. Even the power steering is managed by these processors. By this the steering is more responsive.
- As in the Indian automobile industry the buzz word was about the injection system, Toyota came up with VVTI (Variable Valve Timing and Ignition) technology, which is much better than the fuel injection, though it has fuel injection attached to it. Since the microprocessor controls the valve opening and closing the performance of the engine is improved drastically. In turn we get better fuel efficiency. Imagine Corolla being 1.8 ltr engine giving a mileage of 14-16 Km/ltr. Where as and Maruti 800 gives a mileage of 18-20 Km/ltr for an 800 cc engine. This is how the technology has evolved over years.
- CRDi is an acronym used by some major automobile manufacturers for the revolutionary Diesel fuel delivery system called Common Rail Direct Injection.

- The injectors give a more uniform and controlled combustion and helps extract maximum energy from the combustion cycle. This technology to get more refined, powerful and fuel efficient Diesel engines into the demanding market.
- With technological advancements electrical car may emerge as a preferred option as a second car.

5.2 INTERNAL ANALYSIS

Toyota Motor Corporation holds a strong place in the automotive market as the world’s second largest automaker and America’s number one car importer. Toyota’s corporate philosophy of constant improvement strongly contributes to its success. The company strives to better its product in order to appeal to its customers—both buyers and potential buyers. Toyota is a world leader in the research and development of advanced automobile technology, creating intelligent solutions for today's mobility challenges and taking responsibility for future generations.

Toyota Motor Corporation (TMC) manufactures a range of automobile models, from mini-vehicles to large trucks. The company operates through 51 manufacturing subsidiaries in 21 countries across Asia, North America and Europe. It is headquartered in Toyota City, Japan and employs about 285,977 people.

In 1997, Toyota extended its root to India by establishing Toyota Kirloskar Motors Pvt ltd (TKM) with a paid in capital of Rs 7 billion. Toyota Motor Corporation (TMC) holds 89% equity of the company and the Kirloskar group holds the remaining

11%. Actually the first vehicle rolled out of the facility in the year 2000 i.e. Toyota Qualis.

Financial performance

The company recorded revenues of (Japanese Yen) JPYof 21036.9 billion during the fiscal year ended March 2006, an increase of 7.6% over 2005. The increase was primarily attributable to an increase in overseas vehicle sales. The country wise production and sales is given in the appendix2. The total sales for the year 05-06 is 10,191.8 thousand units which includes both domestic and export. The operating profit of the company during fiscal 2006 was JPY1878.3 billion, an increase of 12.3% over fiscal 2005. Thus it can be inferred that Toyota has deep pockets and have sound financials the financials that is shown here is from the Toyota global operations since the TKM financials is not available.

Toyota Kirloskar Motors is expected to breakeven in 2005 and major further investments are in the pipeline.

Performance measurement

Toyota consistently has outpaced the rest of the industry in product quality and customer satisfaction. The Toyota name is associated with strong, dependable qualities that have gained the company a large and loyal consumer base.

Strong industry position

TMC is one of the leading automobile manufacturers in the world, along with General Motors and Ford. The company has manufacturing operations in 51 countries and its products are sold in over 160 nations. As a result, TMC enjoys economies of scale that allow dramatic reductions in operating costs as well as specialized staff knowledge. The company is also the largest automotive manufacturer in Japan and therefore, a highly recognized company within a lucrative market. The company's dominant position in Japan (over 40% market share) has helped it create barriers to entry hindering other companies (including established US companies) from making any significant market share growth in Japan. The company's strong position in its domestic market as well as the global market gives it an edge against its competitors. This strong position has given Toyota to break through the entry barriers of any foreign market.

New product activity

Toyota's product portfolio covers a wide spectrum ranging from leading passenger car brands such as the Corolla, Camry and Avensis to its luxury brand make, Lexus, which is aimed at the sports-luxury market and competing with such cars as the Mercedes S-series, the BMW M5 and Jaguar XJ-R. Additionally, Lexus also produces a luxury sports utility vehicle, the RX330. The Daihatsu Company, a 51% subsidiary of TMC focuses on the market for mini-vehicles, especially in Japan. Another subsidiary, Hino, is a manufacturer of large trucks and buses. Hino also handles the assembly work for Toyota pickup trucks. Primarily Toyota and Denso Corporation manufacture automobile parts. In India TKM has come out with 4 models and has captured a reasonable market share in such short span of time. Now that TMC has a relatively good distribution network is strong and the manufacturing plant is set up in India, the market is going to get exposed to many new Toyota models.

Global capacity expansion

During September 2004, TMC announced that it would invest around $460 million to build a new manufacturing facility in China that would produce 100,000 vehicles annually. In April 2005, TMC and Daihatsu announced in April 2005 that they would each increase their automobile production capacities in Indonesia. At the same time, TMC announced that it would be starting a new Camry plant in St Petersburg, Russia. The plant is expected to be operational by December 2007. TMC also announced plans to start a new plant on the outskirts of Bangkok, Thailand in 2005 and at the same time expand the production capacity of its existing Gateway Plant in the country. By expanding its production capacity, the company will be better able to cater to the increasing global demand for cars especially in Asia and Eastern Europe, both high growth regions. Indian manufacturing facility has the capacity to produce 36000 units of Innova and 10000 units of corolla. Remaining models are mainly imported from foreign production facilities. The company is looking for further big scale capacity expansion

Management practices.

Toyota is pioneer in formulating and implementing new and distinct management and operation techniques. Some of them include lean manufacturing system, TQM, New JIT etc. These revolutionary techniques and principles have proved to be successful and have made the company extremely cost efficient and quality driven. In factories around the globe, Toyota consistently raises the bar for manufacturing, product development, and process excellence. The result is an amazing business success story, steadily taking market share from price-cutting competitors, earning far more profit than any other automaker, and winning the praise of business leaders worldwide.

Organizational capability.

Toyota has proved that it has got the organizational capability of achieving the unattainable in the industry they are in. The vast knowledge and the experience they got from various markets in due course of time have made them a knowledge database. This has made Toyota untouchable and unstoppable.

SWOT Analysis:

The below analysis will give us the SWOT analysis of the Toyota and the opportunities that it can look for in the Indian automobile industry and the threats that it can expect to face from both the domestic and international players. It throws light into the strengths that it can focus on and overcome its weakness.

Strength

- Strong brand equity and recognition.
- Globally No 2 and fast catching up with General Motors. But N0 1 in profitability.
- Known for its quality products and service.
- Strong presence globally.

- Presence of vehicles catering to luxury and utility segment.
- Strong customer base.
- Quality leadership.
- Technically competent by coming up with new technology (ex VVTI,CRDI)
- Pioneers in JIT, lean manufacturing techniques.
- Outstanding and globally renowned products like Corolla, Camry and Prado.
- No 1 in D segment vehicles (ex Corolla)
- Was No 1 in utility segment vehicle with Qualis, now it is at No 2 position with Innova in utility segment.
- Sound financials and support from the parent company.
- World renowned TPS(Toyota Production System) that focuses on two important aspects i.e. Customer first and Kaizen (Continuous improvement)
- Strong R&D team.

Weakness

- Late comer into Indian automobile market
- No presence in small car segment (either petrol and diesel version)
- Labour problems
- Lower CSI and SSI scores (refer appendix 1), which is below the industry average.
- No strong dealer network (less number of dealers)

Opportunities

- Fastest growing market to be tapped
- Changes in government regulations to make India, global export and manufacturing hub for small cars.
- Demand for passenger car is around 2 million in the year 2010 and 3 million in the year 2015.
- Indian economy growing constantly
- Double digit growth in small car segment year on year
- Presence of only one major player in small car diesel segment (Tata Indica)
- Of the total car sales , 77% is from small cars
- Growing diesel car market which is at 20%

Threats

- With lot of players operating in the market will give stiff competition to TKM.
- Tata coming up with 1 lac car
- Changes in government regulations
- Ever increasing petrol and diesel prices

CHAPTER 6. FINDINGS, STRATEGIES & CONCLUSION

Findings:

- 87 % people want to own a small car.
- The reason most of them want to own one is:
  - Price
  - Infrastructure.
- 63 % want to own due to the convenience.
- 84 % prefer better mileage & less maintenance in Small cars.
- 73 % looks for comfort in small car.
- 70 % wants better service after sales.
- People influencing the buying decision are:
  - Colleagues 43 %
  - Family 37 %
- 70 % are not aware Toyota entering in to small cars.
- 43 % opt Toyota as they get value for their money.
- 63 % look from brand, price & service.

The study shows that high percentage of people wants to have a small car, the reason been heavy traffic and bad infrastructure. High percentage of people want comfort rather than speed, good mileage, less maintenance & better service after sales. Most of them look for brand, price & service facilities before making a buying decision. Majority of them think they have fewer options while making a choice, hence want other brands to enter the segment.

Strategies & conclusion:

From both the external analysis from which we found out the opportunities and threats that Toyota faces from both the competitors and as well as from the other external factors like the government regulations and other environmental factors. And matching that with the internal analysis where we found out the strength and weakness and the resources that Toyota and the trends that the industry is following. And now matching the opportunities that exists by taking into considerations the environmental factors and the strengths that the Toyota posses. Strategies would be recommended for Toyota to enter into the Indian small car segment.

- Pitch the vehicle in the B+ segment in both petrol and diesel versions (considering the growth rate).
- The capacity would be 1500cc (with no player currently in this space).
- The vehicle would be targeted to high and middle level income groups.
- And the vehicle would be positioned and differentiated as a fuel efficient family car with sufficient power (by using leveraging on technologies like VVTI and D4D engine). Actually the vehicle they are planning to launch is pitted to give a BHP of 106 for a 1500 cc engine.
- Leverage on the brand value of Toyota and promote the vehicle for its quality that Toyota is known for.

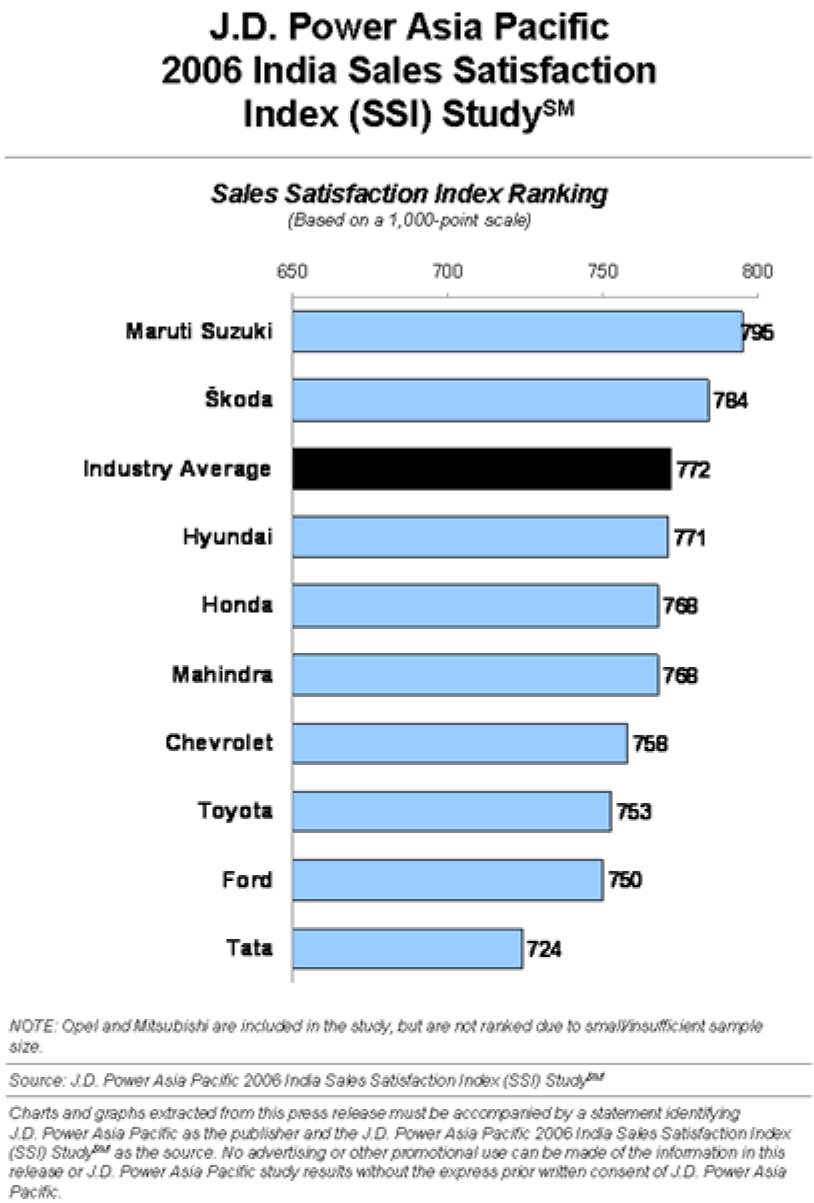
- Increase the sales and service network which is currently pretty less by partnering with the current dealers by extending their reach and by getting new dealers so that the reach is increased (as highlighted in the weakness of Toyota) so that Toyota can increase its reach and availability and improve upon the SSI and CSI index. By this way the customer satisfaction will be improved.
- Providing training to the companies' point of contact to the customer ie sales officer should be their top priority.
- Ensuring proper product training and induction is done properly so that the sales force will be well versed with the product and selling process properly, which is currently not practiced. Make certain days of training compulsory to all sales officers.
- Train them in such a way that they will be using single window concept. Like they will look after the entire sales process, finance, insurance, booking, delivery etc would be done by a single person. By which the customer is always in contact with a single person and there will be no communication gap. By doing this differentiate with the other manufacturers.
- Collaborate with major banks to provide loans this will include both private and nationalized banks by which reach is increased and it can also use the banks data base to get the additional prospects and also offer the customers with lesser interest rate by contributing from their profit margin. This is because each party is benefiting from one another.
- Differentiate the product from the rest by keeping the instrument panel in the center console above the air conditioning vents and audio system controls. So that you have additional space beneath the steering wheel.

- Using the existing data base of satisfied customers of Toyota to maximum extent.
- Providing a common platform for the exchange of old vehicles so that we are ensuring the dealership to become the one stop shop for the customers. By this way the market value some of the cars may be brought down.
- Ensuring the process to be such a way that the dealership would maintain a one hour contact time to the customers enquiring by telephone. Or even give the test drive to the customer as the competition is growing strong. This means to say that customer would be contacted within one hour after he/she has enquired by telephone. As the amount spent on one enquiry would be in thousands so every enquiry has to be monitored and followed up properly.
- Eliminating the labour uneasiness would be the top priority for Toyota to consider.
- When Toyota come up with the small car they could consider reducing price for few days saying that it is introductory offer and able to capture the market and able to get the word across to the customer would be a good ploy against the competitors (similar to that of Maruti Swift).

With the vision set at gaining the market share of about 15% in the Indian automobile industry by the year 2015. The Indian automobile industry dominated by the passenger car especially major contribution coming from the small car segment. With the growth rate that is seen and the trends that have been shown by the small car segment, now to gain the market share of 15% would be possible by entering into the small car segment. Now looking into the external analysis we got the opportunities and threats, by looking into the internal analysis we got to know the strengths and weakness of company.

Now that there was the opportunity and gap that was found in the market, entering the small car segment would be a good option with the strategies as suggested above.

APPENDIX 1

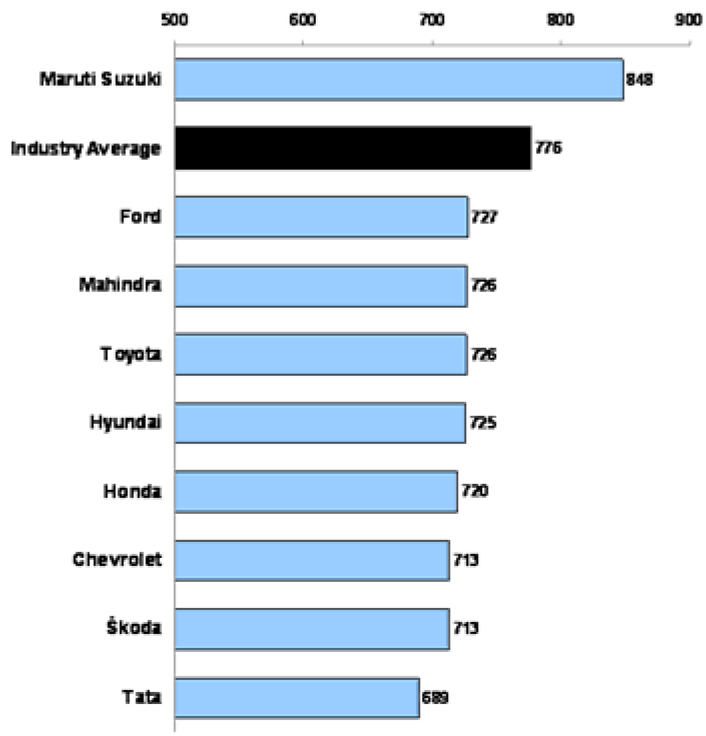


APPENDIX 2

J.D. Power Asia Pacific
2006 India Customer Satisfaction Index (CSI) Study℠

Customer Satisfaction Index Ranking

(Based on a 1,000-point scale)

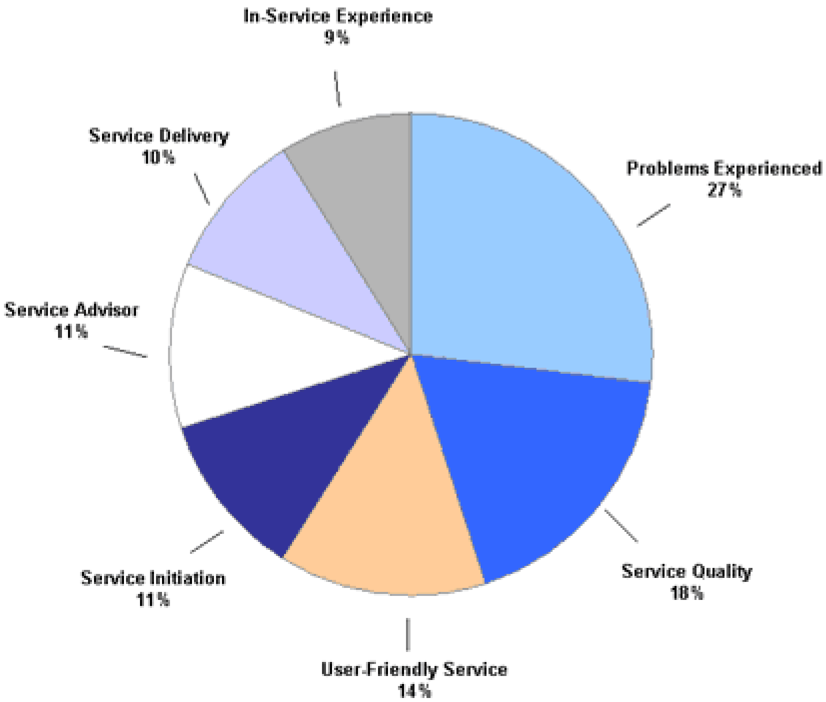


Included in the study but not ranked due to small sample size are: Fiat, Mitsubishi and Opel.

Source: J.D. Power Asia Pacific 2006 India Customer Satisfaction Index (CSI) Study℠

J.D. Power Asia Pacific
2006 India Customer Satisfaction Index (CSI) Study℠

Factors Contributing to Overall Satisfaction



Source: J.D. Power Asia Pacific 2006 India Customer Satisfaction Index (CSI) Study℠

May 10, 2006

Highlights of Consolidated Financial Results for FY2006 (April 1, 2005 through March 31, 2006)

(All financial information has been prepared in accordance with accounting principles generally accepted in the United States of America)

(Billion yen, unless otherwise specified)

	FY2005 (Apr. 2004 through Mar. 2005)	FY2006 (Apr. 2005 through Mar. 2006)	% of change from FY2005	FY2007 Forecast (Apr. 2006 through Mar. 2007)	% of change from FY2006
Vehicle sales (Thousand units)	7,408	7,974	7.6%	8,450	6.0%
Net revenues	18,551.5	21,036.9	13.4%	22,300.0	6.0%
Operating income (Income ratio)	1,672.1 (9.0%)	1,878.3 (8.9%)	12.3%	1,900.0 (8.5%)	1.2%
Income before income taxes, minority interest and equity in earnings of affiliated companies (Income ratio)	1,754.6 (9.5%)	2,087.3 (9.9%)	19.0%	1,970.0 (8.8%)	-5.6%
Net income (Income ratio)	1,171.2 (6.3%)	1,372.1 (6.5%)	17.2%	1,310.0 (5.9%)	-4.5%
Factors contributing to increases and decreases in operating income		Operating income increased by 206.2 billion yen (Increase) Effects of changes in exchange rates 300.0 Marketing efforts 240.0 Cost reduction efforts 130.0 (Decrease) Decrease in the gains recognized on the transfer of the substitutional portion of the employee pension fund to the Government -47.2 Increases in expense -416.6			
Exchange rates	¥108/US$ ¥135/Euro	¥113/US$ ¥138/Euro		¥110/US$ ¥135/Euro	
Capital expenditure (excluding leased assets)	1,087.2	1,528.8		1,550.0	
Depreciation expenses	775.8	891.4		930.0	
R&D expenses	755.1	812.6		920.0	
Performance evaluation		Increases in net revenues, operating income, income before income taxes, minority interest and equity in earnings of affiliated companies, and net income, all reached historic highs.			
Number of employees	265,753	285,977			

Note: Toyota prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

CONSOLIDATED PRODUCTION AND SALES

(All financial information has been prepared in accordance with accounting principles generally accepted in the United States of America)

1. Production

(Units)

		FY2007 semi-annual (April 2006 through September 2006)	FY2006 semi-annual (April 2005 through September 2005)	Increase (Decrease)	FY2006 (April 2005 through March 2006)
Vehicles (new)	Japan	2,450,028	2,191,618	258,410	4,684,956
	North America	590,108	609,387	(19,279)	1,201,459
	Europe	349,389	298,923	50,466	622,552
	Asia	372,537	416,461	(43,924)	835,669
	Other	195,424	185,586	9,838	367,011
	Overseas total	1,507,458	1,510,357	(2,899)	3,026,691
	Total	**3,957,486**	**3,701,975**	**255,511**	**7,711,647**
Houses (Japan)		2,571	2,352	219	5,269

Note: The total production of vehicles (new) includes 406,394 units of Daihatsu brand vehicles (including OEM production) in FY2007 semi-annual, 369,054 units in FY2006 semi-annual and 763,573 units in FY2006 results, and 52,299 units of Hino brand vehicles in FY2007 semi-annual, 49,650 units in FY2006 semi-annual and 100,018 units in FY2006 results.

2. Sales (by destination)

(Units)

		FY2007 semi-annual (April 2006 through September 2006)	FY2006 semi-annual (April 2005 through September 2005)	Increase (Decrease)	FY2006 (April 2005 through March 2006)
Vehicles (new)	Japan	1,073,457	1,086,773	(13,316)	2,364,484
	North America	1,463,546	1,244,673	218,873	2,556,050
	Europe	589,240	498,072	91,168	1,022,781
	Asia	381,799	448,090	(66,291)	880,661
	Other	637,281	555,511	81,770	1,150,587
	Overseas total	3,071,866	2,746,346	325,520	5,610,079
	Total	**4,145,323**	**3,833,119**	**312,204**	**7,974,563**
Houses (Japan)		2,593	2,274	319	5,525

Note: The total sales of vehicles (new) include 361,401 units of Daihatsu brand vehicles in FY2007 semi-annual, 344,656 units in FY2006 semi-annual and 711,757 units in FY2006 results, and 51,628 units of Hino brand vehicles in FY2007 semi-annual, 49,249 units in FY2006 semi-annual and 102,474 units in FY2006 results.

1-1. Outline of Toyota

Production, sales and exports of vehicles (calendar year)

(1 = 1,000 vehicle)

2003	Total		Toyota		Daihatsu		Hino	
Worldwide production	**6,826**	**(8.1)**	6,078	(7.8)	665	(7.3)	83	(53.4)
Overseas	**2,581**	**(18.7)**	2,558	(18.7)	24	(18.1)	–	–
Japanese	**4,245**	**(2.6)**	3,520	(1.0)	641	(7.0)	83	(53.4)
Worldwide sales	**6,783**	**(10.0)**	6,071	(10.0)	632	(6.6)	81	(44.5)
Overseas	**4,478**	**(13.4)**	4,355	(13.5)	90	(1.9)	33	(45.1)
Japanese	**2,306**	**(3.9)**	1,716	(2.1)	542	(7.4)	48	(44.1)
Exports from Japan	**1,953**	**(1.9)**	1,836	(1.1)	84	(10.2)	33	(45.1)

2004	Total		Toyota		Daihatsu		Hino	
Worldwide production	**7,547**	**(10.6)**	6,724	(10.6)	730	(9.8)	94	(12.8)
Overseas	**3,093**	**(19.8)**	3,043	(19.0)	52	(119.4)	–	–
Japanese	**4,454**	**(4.9)**	3,681	(4.6)	679	(6.0)	94	(12.8)
Worldwide sales	**7,518**	**(10.8)**	6,708	(10.5)	716	(13.3)	94	
Overseas	**5,130**	**(14.6)**	4,949	(13.6)	138	(53.6)	44	(31.1)
Japanese	**2,388**	**(3.6)**	1,759	(2.5)	578	(6.6)	51	(6.3)
Exports from Japan	**2,089**	**(7.0)**	1,952	(6.3)	94	(12.0)	44	(31.1)

2005	Total		Toyota		Daihatsu		Hino	
Worldwide production	**8,232**	**(9.1)**	7,361	(9.5)	774*	(5.9)	97	(3.4)
Overseas	**3,621**	**(17.0)**	3,571	(17.4)	50	(-3.6)	–	–
Japanese	**4,611**	**(3.5)**	3,790	(3.0)	725	(6.6)	97	(3.4)
Worldwide sales	**8,115**	**(7.9)**	7,267	(8.3)	752	(5.8)	96	(1.8)
Overseas	**5,747**	**(12.0)**	5,554	(12.2)	151	(13.5)	42	(-4.5)
Japanese	**2,369**	**(-0.8)**	1,713	(-2.6)	601	(4.0)	55	(7.1)
Exports from Japan	**2,195**	**(5.0)**	2,043	(4.7)	110	(17.0)	42	(-4.5)

**Figure was rounded up.*

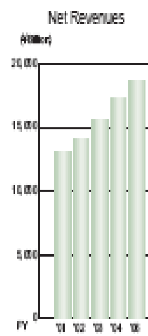
1-1. Outline of Toyota

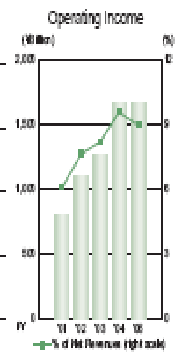
Business results (fiscal year, consolidated, U.S. GAAP)

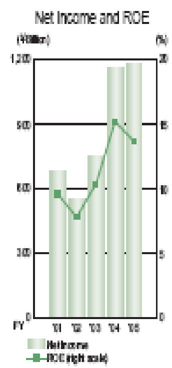
*(1 = ¥1 million)**

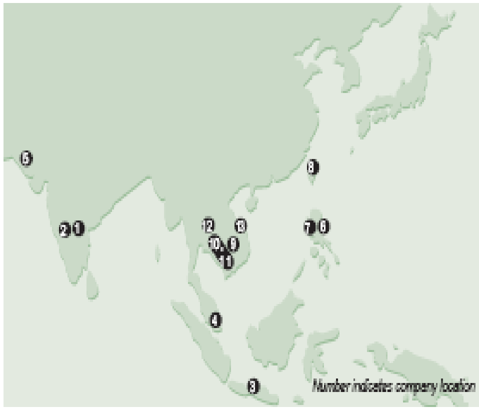
	2003	2004	2005
Period	April 2002-March 2003	April 2003-March 2004	April 2004-March 2005
Net Revenues:			
Sales of Products	¥ 14,793,973	¥ 16,578,033	¥ 17,790,862
Financing Operations	707,580	716,727	760,664
Total	15,501,553	17,294,760	18,551,526
Operating Income	1,271,646	1,666,890	1,672,187
Net Income	750,942	1,162,098	1,171,260
ROE	10.4%	15.2%	13.6%
Per Share Data (yen):			
Net Income (Basic)	¥ 211.32	¥ 342.90	¥ 355.35
Cash Dividends	36.00	45.00	65.00
Shareholders' Equity	2,063.43	2,456.08	2,767.67
R&D Expenses	668,404	682,279	755,147
Capital Expenditures*2	1,005,931	945,803	1,068,287
Depreciation	870,636	969,904	997,713

**1 Yen in millions except per share data*
**2 Excluding equipment leased to others*
NOTE: For further information, please go to: http://www.toyota.co.jp









Regional headquarter

	Company name	Establishment	Activities
Singapore	Toyota Motor Asia Pacific Pte Ltd. (TMAP)	July 1990	Organization of parts complementation program for ASEAN nations and support of marketing and sales operations in Asia

Manufacturing companies in Asia

		Name	Start of operations	Number of employees	Main products	2005 unit production (1=1,000units)
India	1	Toyota Kirloskar Motor Private Ltd. (TKM)	Dec. 1999	2,378	Innova, Corolla	44.5
	2	Toyota Kirloskar Auto Parts Private Ltd. (TKAP)	July 2002	800	Axles, transmissions, propeller shafts	-
Indonesia	3	PT. Toyota Motor Manufacturing Indonesia	May 1970	3,895	Kijang Innova, Kijang P/U	113.2
					Engines	232.8
Malaysia	4	Assembly Services Sdn. Bhd. (ASSB)	Feb. 1968	3,236	Camry, Corolla, Hiace, Hilux, Vios, Innova, Fortuner	54.5
					Engines	10.5*1
Pakistan	5	Indus Motor Company Ltd.	Mar. 1993	1,634	Corolla, Hilux, Cuore*2	28.5
Philippines	6	Toyota Motor Philippines Corp. (TMP)	Feb. 1989	1,287	Camry, Corolla, Innova	17.8
	7	Toyota Autoparts Philippines Inc. (TAP)	Sept. 1992	581	Transmissions, constant velocity joints	220.7
Taiwan	8	Kuozui Motors, Ltd.	Jan. 1986	2,502	Camry, Corolla, Vios, WISH, Hiace, Zace, Dyna, engines, stamped parts	139.7
Thailand	9	Toyota Motor Thailand Co., Ltd. (TMT)	Dec. 1964	5,909	Camry, Corolla, Hilux VIGO, Vios, WISH	386.9
	10	Toyota Auto Body Thailand Co., Ltd.	May 1979	134	Stamped parts	-
	11	Thai Auto Work Co., Ltd. (TAW)	May 1988	464	Fortuner	49.4
	12	Siam Toyota Manufacturing Co., Ltd. (STM)	July 1989	2,256	Engines	403.9
					Propeller shafts, casting (block, head)	-
Vietnam	13	Toyota Motor Vietnam Co., Ltd.	Aug. 1996	559	Camry,Corolla, Hiace, Land Cruiser, Vios, Innova	13.3

*1 *Engine Assembly*
*2 *A Daihatsu-brand vehicle; therefore, the figure does not include this model*

Sales

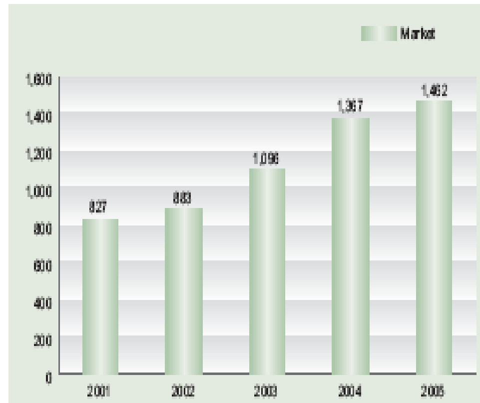
The number of distributors*1	2005 Asia sales (1=1,000 vehicles)
11	879.4*2

*1 *As of May 2005*
*2 *Excluding China sales*

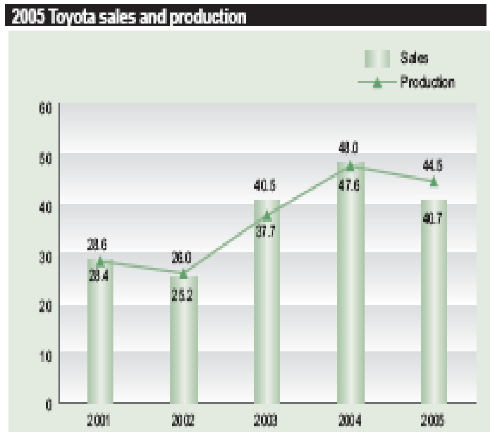
1. India

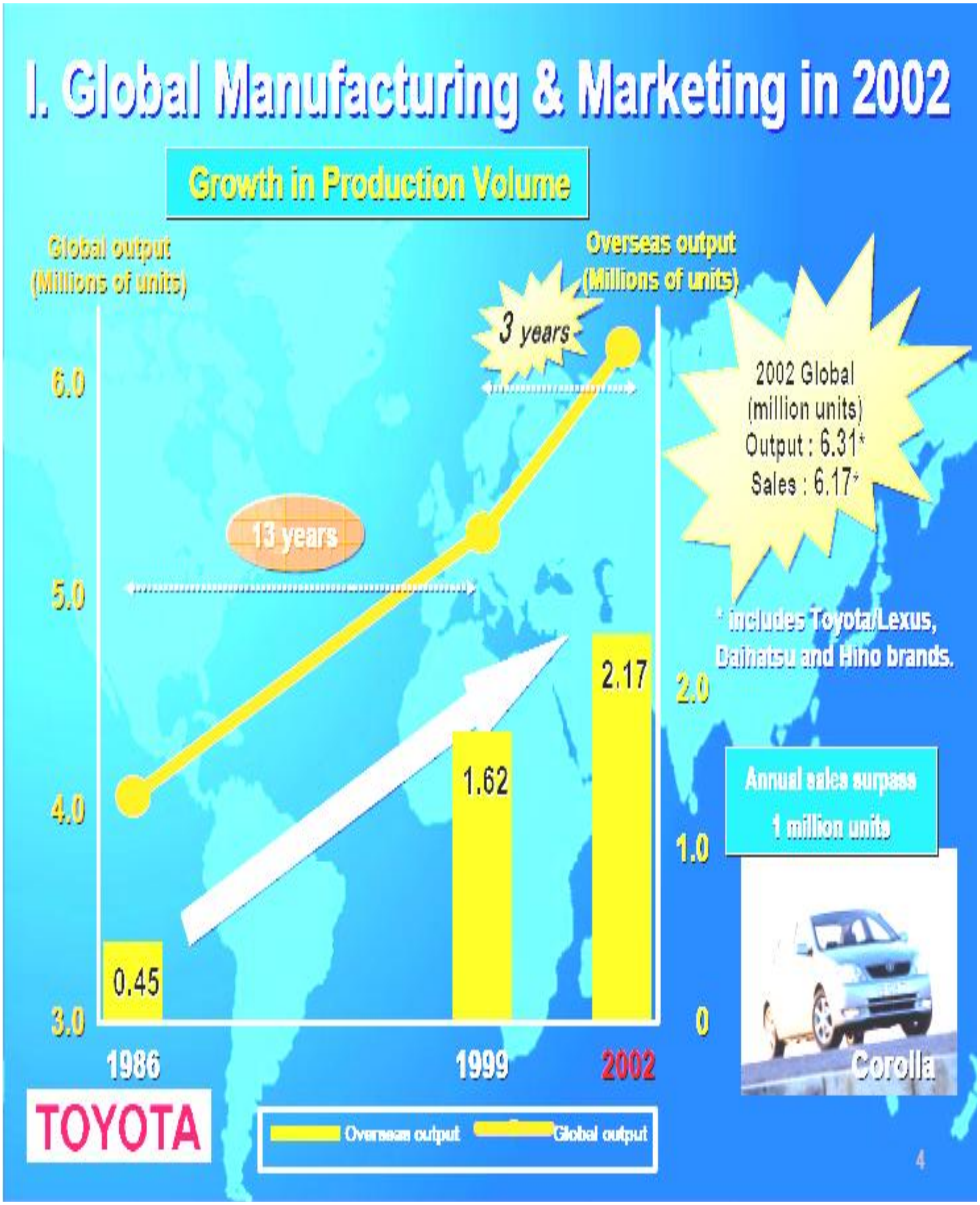
(1 = 1,000 vehicles)

2005 Market



2005 Toyota sales and production



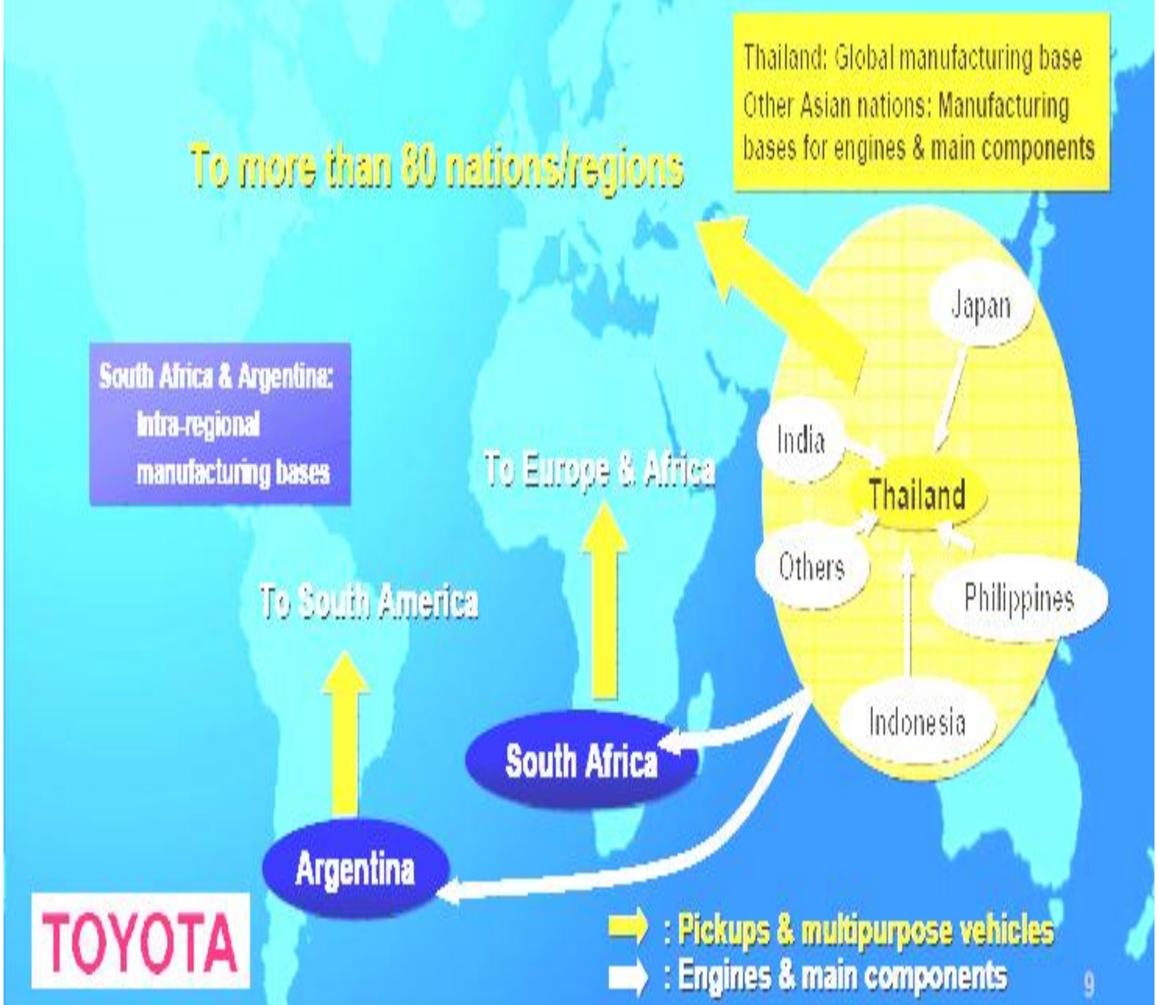

I. Global Manufacturing & Marketing in 2002
Growth in Production Volume
Global output (Millions of units)
Overseas output (Millions of units)
3 years
13 years
6.0
5.0
4.0
3.0
2.0
1.0
0
0.45
1.62
2.17
1986
1999
2002
2002 Global (million units) Output : 6.31* Sales : 6.17*
* includes Toyota/Lexus, Daihatsu and Hino brands.
Annual sales surpass 1 million units
Corolla
TOYOTA
Overseas output
Global output
4


II. 2010 Global Vision
Major change in the global economic environment
<Expected society>
Taking on the challenges for change
Global motorization
Achieve global production & sales of 6 million units
* Regional strategies – North America, Europe, Asia, China and Japan
* Technological innovation
Market & population growth in the US
Rise of markets in Eastern & Central Europe and in Russia
Strong growth of Asian markets
2002
2010s
TOYOTA
5

III. Regional Strategy

Asian Market: Manufacturing & export base for pickups/multipurpose vehicles

⇒Development of global manufacturing base and mutual distribution network (IMV Project starts in 2004)



Title of the project: STRATEGIES FOR TOYOTA TO ENTER INTO SMALL CAR SEGMENT IN INDIA.

Candidate: Syed Sadiq Ahmed K.

Information to participants:

This project is aimed to your participation in this survey would be considered valuable, as it would contribute to the project work. If you agree to participate in the survey, it will include answering a set of questions, which would take 10 minutes of yours.

Undertaking by the researcher:

The information provided by you will be kept strictly confidential. Your participation in the survey is voluntary.

Participants Personal Data

Name:

Age:

Gender:

Contact Information:

Please mention if it is ok to be contacted if necessary:

Yes / No

QUESTIONNAIRE

1. Do you own a Toyota car?

   ☐ Yes
   ☐ No

2. Which car do you own?

		Brand
☐	Small car	( )
☐	SUV	( )
☐	MUV	( )

3. Income per annum?

   ☐ 1,00,000 - 2,00,000
   ☐ 2,00,000 - 3,00,000
   ☐ 3,00,000 - 4,00,000
   ☐ > 4,00,000

4. Number of members in your family?

   ☐ 3
   ☐ 4
   ☐ 5 and above

5. Do you like to own a small car?

   ☐ Yes
   ☐ No

6. Why do you want to own a small car?

- ☐ Price
- ☐ Family Size
- ☐ Infrastructure

7. When you say small car, what comes to your mind?

- ☐ Benefits
- ☐ Ease Of Usage
- ☐ Low Cost Of Ownership
- ☐ All The Above.

8. What do you prefer in a small car?

- ☐ Mileage
- ☐ Maintenance Free
- ☐ Looks & Style

9. Small cars should be -

- ☐ Comfortable
- ☐ Powerful

10. What attracts you while making a buying decision?

- ☐ Discounts
- ☐ Service After Sales

11. Who influences in making a buying decision?

- ☐ Family
- ☐ Friends
- ☐ Colleagues

12. Are there sufficient options in market for small cars?

- ☐ Yes
- ☐ No

13. Are you aware of Toyota entering small car segment?

- ☐ Yes
- ☐ No

14. Why would you prefer Toyota?

- ☐ Brand
- ☐ Price
- ☐ Sales & Service
- ☐ All The Above

15. What do you accept from Toyota?

- ☐ Competitive price
- ☐ Value for money
- ☐ Service after Sales.

THANK YOU

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