CASE STUDY TITLE:

MARUTI UDYOG LIMITED – Managing competition successfully
Maruti Udyog Limited (MUL) was established in Feb 1981 through an Act of Parliament, to meet the growing demand of a personal mode of transport caused by the lack of an efficient public transport system. It was established with the objectives of - modernizing the Indian automobile industry, producing fuel efficient vehicles to conserve scarce resources and producing indigenous utility cars for the growing needs of the Indian population. A license and a Joint Venture agreement were signed with the Suzuki Motor Company of Japan in Oct 1983, by which Suzuki acquired 26% of the equity and agreed to provide the latest technology as well as Japanese management practices. Suzuki was preferred for the joint venture because of its track record in manufacturing and selling small cars all over the world. There was an option in the agreement to raise Suzuki’s equity to 40%, which it exercised in 1987. Five years later, in 1992, Suzuki further increased its equity to 50% turning Maruti into a non-government organization managed on the lines of Japanese management practices.

Maruti created history by going into production in a record 13 months. Maruti is the highest volume car manufacturer in Asia, outside Japan and Korea, having produced over 5 million vehicles by May 2005. Maruti is one of the most successful automobile joint ventures, and has made profits every year since inception till 2000-01. In 2000-01, although Maruti generated operating profits on an income of Rs 92.5 billion, high depreciation on new model launches resulted in a book loss.

COMPANY HISTORY AND BACKGROUND

The Evolution

Maruti’s history of evolution can be examined in four phases: two phases during pre-liberalization period (1983-86, 1986-1992) and two phases during post-liberalization period (1992-97, 1997-2002), followed by the full privatization of Maruti in June 2003 with the launch of an initial public offering (IPO). The first phase started when Maruti rolled out its first car in December 1983. During the initial years Maruti had 883 employees, a capital of Rs. 607 mn and profit of Rs. 17 mn without any tax obligation. From such a modest start the company in just about a decade (beginning of second phase in 1992) had turned itself into an automobile giant capturing about 80% of the market share in India. Employees grew to 2000 (end of first phase 1986), 3900 (end of second phase 1992) and 5700 in 1999. The profit after tax increased from Rs 18.67 mn in 1984 to Rs. 6854.54 mn in 1998 but started declining during 1997-2001.

During the pre-liberalization period (1983-1992) a major source of Maruti’s strength was the wholehearted willingness of the Government of India to subscribe to Suzuki’s technology and the principles and practices of Japanese management. Large number of Indian managers, supervisors and workers were regularly sent to the Suzuki plants in Japan for training. Batches of Japanese personnel came over to Maruti to train, supervise and manage. Maruti’s style of management was essentially to follow Japanese management practices.

The Path to Success for Maruti was as follows:
(a) teamwork and recognition that each employee’s future growth and prosperity is totally dependent on the company’s growth and prosperity (b) strict work discipline for individuals and the organization (c) constant efforts to increase the productivity of labor and capital (d) steady improvements in quality and reduction in costs (e) customer orientation (f) long-term objectives and policies with the confidence to realize the goals (g) respect of law, ethics and human beings. The “path to success” translated into practices that Maruti’s culture approximated from the Japanese management practices.

Maruti adopted the norm of wearing a uniform of the same color and quality of the fabric for all its employees thus giving an identity. All the employees ate in the same canteen. They commuted in the same buses without any discrimination in seating arrangements. Employees reported early in shifts so that there were no time loss in-between shifts. Attendance approximated around 94-95%. The plant had an open office system and practiced on-the-job training, quality circles, kaizen activities, teamwork and job-rotation. Near-total transparency was introduced in the decision making process. There were laid-down norms, principles and procedures for group
decision making. These practices were unheard of in other Indian organizations but they worked well in Maruti. During the pre-liberalization period the focus was solely on production. Employees were handsomely rewarded with increasing bonus as Maruti produced more and sold more in a seller’s market commanding an almost monopoly situation.

INDUSTRY ANALYSIS

GLOBAL FOUR WHEELER INDUSTRY

Evolution
The automobile industry has undergone significant changes since Henry Ford first introduced the assembly line technique for the mass production of cars. Production concepts, processes and the associated technologies have changed dramatically since the first cars were built. Some 70 years ago, car assembly was primarily manual work. Today, the process of car assembly is almost fully automated. In the old days, firms attached importance to the production of virtually every part in a single plant, while today, carmakers concentrate on only a few specific production stages (i.e. car assembly). Parts and module production, services and related activities have been shifted to other, specialised firms (outsourcing of production steps). Since the 1980s, it has become clear that further productivity gains to retain competitiveness can be possible only by outsourcing and securing greater flexibility. For example, firms, especially small car producers whose markets have been threatened by imports, have diversified their production programmes (e.g. by building off-road cars or convertibles) thereby introducing greater flexibility in the production process. Also, firms and their production have become more internationalized in lieu of outsourcing.

Current Scenario
The global passenger car industry has been facing the problem of excess capacity for quite some time now. For the year 2002, the global capacity in the automotive industry was 75 million units a year, against production of only 56 million units (excess capacity estimated at 25%). Efforts to shore up capacity utilization have prompted severe price competition, thus affecting margins and forcing fundamental changes in the industry. The pressure on sales and margins is driving players to emerging markets in pursuit of better growth opportunities and/or access to low-cost manufacturing bases.

• The concept of selling in the passenger car industry is changing from original sales towards lifecycle value generation, encompassing financing, repairs & maintenance, cleaning, provision of accessories, and so on.
• Vehicle manufacturers are moving into completely new materials and technologies—partly guided by environmental legislation—in striving to come up with radically different products. Some of these new technologies involve parts that can be bolted on to an existing vehicle with relatively few implications for the rest of the vehicle. Others are much more fundamental, and are likely to have a profound impact throughout the supply chain. The examples include battery, electric or hybrid power trains, and alternatives to the all-steel body. Carmakers are increasingly outsourcing component production, and focusing on product design, brand management and consumer care, in contrast to the traditional emphasis on manufacturing and engineering.
• The increasing need to attain global scales underscores the importance of platform sharing among carmakers. All original equipment manufacturers (OEMs) are trying to reduce the number of vehicle platforms, but raise the number of models produced from each platform. This means producing a number of seemingly distinct models from a common platform.
• As in manufacturing, distribution in the automobile industry is undergoing significant changes, involving Internet use, retailer consolidation, and unbundling of services provided by retailers.

INDIAN FOUR WHEELER INDUSTRY

Evolution
The Indian automobile industry developed within the broader context of import substitution during the 1950s. The distinctive feature of the automobile industry in India was that in line with the overall policy of State intervention in the economy, vehicle production was closely regulated by an industrial licensing system until the
early 1980s that controlled output, models and prices. The cars were built mostly by two companies, Premier Automobiles Limited and HM. However, the Indian market got transformed after 1983 following the relaxation of the licensing policy and the entry of MUL into the car market. In 1991, car imports were insignificant, while component imports were equivalent to 20% of the domestic production, largely because of the continuing import of parts by MUL. The liberalization of the Indian automotive industry that began in the early 1990s was directed at dismantling the system of controls over investment and production, rather than at promoting foreign trade. Multinational companies were allowed to invest in the assembly sector for the first time, and car production was no longer constrained by the licensing system. However, QRs on built-up vehicles remained and foreign assemblers were obliged to meet local content requirements even as export targets were agreed with the Government to maintain foreign exchange neutrality. The new policy regime and large potential demand led to inflows of foreign direct investment (FDI) by the mid-1990s. By the end of 1997, Daewoo, Ford India, GM, DaimlerChrysler and Peugeot had started assembly operations in India. They were followed by Honda, HMIL, and Mitsubishi.

**Current Scenario**

**Major Players**

**Current scenario in Passenger Car Category**
The dominant basis of competition in the Indian passenger car industry has changed from price to price-value, especially in the passenger car segment. While the Indian market remains price sensitive, the stranglehold of Economy models has been slackening, giving way to higher-priced products that better meet customer needs. Additionally, a dominant trend in the Indian passenger car segment is the increasing fragmentation of the market into sub-segments, reflecting the increasing sophistication of the Indian consumer. With the launch of new models from FY2000 onwards, the market for MUVs has been redefined in India, especially at the upper-end. Currently, the higher-end MUVs, commonly known as Sports Utility Vehicles (SUVs), occupy a niche in the urban market, having successfully shaken off the tag of commercial vehicles attached to all MUVs till recently. Domestic car manufacturers are now venturing into areas such as car financing, leasing and fleet management, and used-car reconditioning/sales, to complement their mainstay-business of selling new cars.
The critical issue facing the Indian passenger car industry is the attainment of break-even volumes. This is related to the quantum of investments made by the players in capacity creation and the selling price of the car. The amount of investment in capacities by passenger car manufacturers in turn depends on the production strategies of the car manufacturers. Setting up integrated manufacturing facilities may require higher capital investments than establishing assembly facilities for semi knocked down kits or complete knocked down kits. In recent years, even though the ratio of sales to capacity (an important indicator of the ability to reach break-even volumes) of the domestic car manufacturers have improved, it is still low for quite a few car manufacturers in India. India is also likely to increasingly serve as the sourcing base for global automotive companies, and automotive exports are likely to gain increasing importance over the medium term. However, the growth rates are likely to vary across segments. Although the Mini segment is expected to sustain volumes, it is likely to continue losing market share; growth in the medium term is expected to be led largely by the Compact and Mid-range segments. Additionally, in terms of engine capacity, the Indian passenger car market is moving towards cars of higher capacity. This apart, competition is likely to intensify in the SUV segment in India following the launch of new models at competitive prices.
COMPETITOR ANALYSIS

HYUNDAI MOTOR INDIA LIMITED

Hyundai Motor India Limited (HMIL) is a wholly owned subsidiary of Hyundai Motor Company, South Korea and is the second largest and the fastest growing car manufacturer in India. HMIL presently markets over 25 variants of passenger cars in six segments. The Santro in the B segment, and Getz in the B+ segment.

HYUNDAI SANTRO

We are mainly going to concentrate on the various marketing and positioning strategies of Hyundai Santro as against that of Maruti Zen and Alto and Hyundai Getz as against Maruti Swift.

POSITIONING OF SANTRO

The old positioning of the Santro was that of a ‘family car’, this positioning strategy was changed in around 2002 and Santro was repositioned as to that of ‘a smart car for young people.’ The target age group for the car had now shifted from 30-35 years to 25-30 years. The repositioning followed the face-lifts the car has been getting from time to time in the form of engine upgradation, new power steering, automatic transmission, etc, to keep the excitement around it alive in the highly competitive small car market. The repositioning also comes ahead of the possible launch of a new design Santro, and the super B-segment car ‘Getz’, sometime in 2003. The Santro was given a fresh new positioning — from a ‘complete family car’ to a ‘sunshine car’ denoting a fresh new attitude and a ‘changing your life’ positioning. As the average age of a car owner has declined from around 30-35 three years ago to 25-30, primarily because of changing lifestyles, cheap and easily available finance, etc. the company thought that instead of promoting the Santro as a family car, it should be promoted as a car that can change the life of a young person since many of the buyers were young buyers.

HYUNDAI’S PRICING STRATEGY

With the launch of Maruti Swift recently a price war was expected to kick in. Immediately after maruti raised prices on its debutante Hyundai Motor India hit back with a Rs 16,000-19,000 markdown on three new variants of Santro Xing. The company has introduced the XK and XL variants at a lower tag of Rs 3,26,999 and Rs 3,45,999 respectively. The new price variants are likely to give Maruti’s existing B-segment models, Zen and WagonR a run for their money. Hyundai has also launched a new non-AC variant of the Santro at Rs 2.79 lakh, a tad higher than what the existing non-Ac Santro costs. The next offensive is due from Maruti. With the Santro’s new price positioning, Zen and particularly WagonR may be due for a correction, or at least a limited-period subvention. If that happens the domino effect will kick in across the B-segment. Hyundai is positioning its new variants on the tech platform. Strapped with 1.1 litre engine with eRLX Active Intelligence technology, the new variants also come with new colour-coordinated interiors, a new front grill and a 4-speed AC blower that makes the air conditioning more efficient.

TATA MOTORS

Established in 1945, Tata Motors is India's largest and only fully integrated automobile company. Tata Motors began manufacturing commercial vehicles in 1954 with a 15-year collaboration agreement with Daimler Benz of Germany.

TATA INDICA – Tata motors flagship brand

The company's passenger car range comprises the hatchback Indica, the Indigo sedan and the Marina, its station wagon variant, in petrol and diesel versions. The Tata Indica, India's first indigenously designed and manufactured car, was launched by Tata Motors in 1999 as part of its ongoing effort towards giving India transport solutions that were designed for Indian conditions. Currently, the company's passenger cars and multi-utility vehicles have a 16-per cent market share.
POSITIONING OF INDIKA
Tata has positioned Indica as "more car per car". The new car offers more space, more style, more power and more options. Emphasizing the delivery of world class quality. They have tried to redefine the small car market as it has been understood in India. True to its "More car per car" positioning, the Indica CNG offers all the core benefits of the Indica combined with the advantage of CNG. One of the most popular advertisements on television currently, is the one where the guy portrayed as the "loveable liar", gets socked every time he lies; but not when he speaks about the Indica thus implying - "must be true". Elaborating on the campaign, the new ad was launched with the intention of giving the Indica V2 brand a touch of youthfulness.

TATA’S PRICING STRATEGY
After the price war being triggered off by Hyundai being the first company to introduce what came to be known as, pricing based on customer's value perceptions, all others followed suit. Telco's Indica came in the range of Rs 2.56 lakh to Rs 3.88 lakh with 4 models. The price-points in the car market were replaced by price-bands. The width of a price-band was a function of the size of the segment being targeted besides the intensity of competition. The thumb rule being 'the higher the intensity, the wider the price-band.'

KEY STRATEGIC INITIATIVES BY MARUTI

A) TURNAROUND STRATEGIES MARUTI FOLLOWED

Maruti was the undisputed leader in the automobile utility-car segment sector, controlling about 84% of the market till 1998. With increasing competition from local players like Telco, Hindustan Motors, Mahindra & Mahindra and foreign players like Daewoo, PAL, Toyota, Ford, Mitsubishi, GM, the whole auto industry structure in India has changed in the last seven years and resulted in the declining profits and market share for Maruti. At the same time the Indian government permitted foreign car producers to invest in the automobile sector and hold majority stakes.

In the wake of its diminishing profits and loss of market share, Maruti initiated strategic responses to cope with India’s liberalization process and began to redesign itself to face competition in the Indian market. Consultancy firms such as AT Kearney & McKinsey, together with an internationally reputed OD consultant, Dr. Athreya, have been consulted on modes of strategy and organization development during the redesign process. The redesign process saw Maruti complete a Rs. 4000 mn expansion project which increased the total production capacity to over 3,70,000 vehicles per annum. Maruti executed a plan to launch new models for different segments of the market. In its redesign plan, Maruti, launches a new model every year, reduce production costs by achieving 85-90% indigenization for new models, revamp marketing by increasing the dealer network from 150 to 300 and focus on bulk institutional sales, bring down number of vendors and introduce competitive bidding. Together with the redesign plan, there has been a shift in business focus of Maruti. When Maruti commanded the largest market share, business focus was to "sell what we produce". The earlier focus of the whole organization was "production, production and production" but now the focus has shifted to "marketing and customer focus". This can be observed from the changes in mission statement of the organization:

1984: "Fuel efficient vehicle with latest technology".
1987: "Leader in domestic market and be among global players in the overseas market".
1997: "Creating customer delight and shareholders wealth".

Focus on customer care has become a key element for Maruti. Increasing Maruti service stations with the scope of one Maruti service station every 25 km on a highway. To increase its market share, Maruti launched new car models, concentrated on marketing and institutional sales. Institutional sales, which currently contributes to 7-8% of Maruti's total sales. Cost reduction and increasing operating efficiency were another redesign variable. Cost reduction is being achieved by reaching an indigenization level of 85-90 percent for all the models. This would save foreign currency and also stabilize prices that fluctuate with exchange rates.
However, change in the mindset was not as fast as required by the market. **Maruti** planned to reduce costs, increase productivity, quality and upgrade its technology (Euro I&II, MPFI). In addition, it followed a high volume production of about 400,000 vehicles / year, which entailed a smooth relationship between the workers and the managers.

Post 1999, the market structure changed drastically. Just before this change, **Maruti** had wasted two crucial years (1996-1998) due to governmental interventions and negotiation with Suzuki of Japan about the break-up of the share holding pattern of the company. There was a change in leadership, Mr. Sato of Suzuki became the Chairman in June 1998, and the new Mr.J. Khatter was appointed as the new Joint MD. Khatter was a believer in consensus decision making and participative style of **management**. As a result of the internal turmoil and the changes in the external environment, **Maruti** faced a depleting market share, reducing profits, and increase in inventory levels, which it had not faced in the last 18 years.

After their fall in market share they redesigned their strategies and through their parent company Suzuki they learned a lot. The organizational learning of Maruti was moderately successful, the cost was relatively inexpensive as Maruti had its strong Japanese practices to fall back upon. With the program of organizational redesign, rationalization of cost and enhanced productivity, Maruti bounced back to competition with 50.8% market share and 40% rise in profit for the FY2002-2003.

**B) CURRENT STRATEGIES FOLLOWED BY MUL**

**I. PRICING STRATEGY - CATERING TO ALL SEGMENTS**

Maruti caters to all segment and has a product offering at all price points. It has a car priced at Rs.1,87,000.00 which is the lowest offer on road. Maruti gets 70% business from repeat buyers who earlier had owned a Maruti car. Their pricing strategy is to provide an option to every customer looking for up gradation in his car. Their sole motive of having so many product offering is to be in the consideration set of every passenger car customer in India. Here is how every price point is covered.

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>BRAND</th>
<th>VARIANTS</th>
<th>PRICE IN DELHI (Rs.)</th>
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<tr>
<td>1</td>
<td>GRAND VITARA</td>
<td>XL7</td>
<td>16,97,000.00</td>
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<tr>
<td>2</td>
<td>MARUTI BALENO</td>
<td>LXi</td>
<td>5,72,000.00</td>
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<td>VXi</td>
<td>6,42,000.00</td>
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<td>3</td>
<td>MARUTI ESTEEM</td>
<td>LX</td>
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<td>VX</td>
<td>5,39,000.00</td>
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<td>4</td>
<td>MARUTI VERSA</td>
<td>DX</td>
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<td>DX2</td>
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<td>MARUTI SWIFT</td>
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<td></td>
<td>ZXi</td>
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<td>MARUTI ZEN</td>
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<td>9</td>
<td>MARUTI OMNI</td>
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### II. OFFERING ONE STOP SHOP TO CUSTOMERS OR CREATING DIFFERENT REVENUE STREAMS

Maruti has successfully developed different revenue streams without making huge investments in the form of MDS, N2N, Maruti Insurance and Maruti Finance. These help them in making the customer experience hassle free and helps building customer satisfaction.

**Maruti Finance:** In a market where more than 80% of cars are financed, Maruti has strategically entered into this and has successfully created a revenue stream for Maruti. This has been found to be a major driver in converting a Maruti car sale in certain cases. Finance is one of the major decision drivers in car purchase. Maruti has tied up with 8 finance companies to form a consortium. This consortium comprises Citicorp Maruti, Maruti Countrywide, ICICI Bank, HDFC Bank, Kotak Mahindra, Sundaram Finance, Bank of Punjab and IndusInd Bank Ltd. (erstwhile-Ashok Leyland Finance).

**Maruti Insurance:** Insurance being a major concern of car owners. Maruti has brought all car insurance needs under one roof. Maruti has tied up with National Insurance Company, Bajaj Allianz, New India Assurance and Royal Sundaram to bring this service for its customers. From identifying the most suitable car coverage to virtually hassle-free claim assistance it's your dealer who takes care of everything. Maruti Insurance is a hassle-free way for customers to have their cars repaired and claims processed at any Maruti dealer workshop in India.

**True Value – Initiative to capture used car market**

Another significant development is MUL's entry into the used car market in 2001, allowing customers to bring their vehicle to a 'Maruti True Value' outlet and exchange it for a new car, by paying the difference. They are offered loyalty discounts in return. This helps them retain the customer. With Maruti True Value customer has a trusted name to entrust in a highly unorganized market and where cheating is rampant and the biggest concern in biggest driver of sale is trust. Maruti knows its strength in Indian market and has filled this gap of providing trust in Indian used car market. Maruti has created a system where dealers pick up used cars, recondition them, give them a fresh warranty, and sell them again. All investments for True Value are made by dealers. Maruti has
build up a strong network of 172 showrooms across the nation. The used car market has a huge potential in India. The used car market in developed markets was 2-3 times as large as the new car market.

**N2N:** Car maintenance is a time-consuming process, especially if you own a fleet. Maruti’s N2N Fleet Management Solutions for companies, takes care of the A-Z of automobile problems. Services include end-to-end backups/solutions across the vehicle’s life: Leasing, Maintenance, Convenience services and Remarketing.

**Maruti Driving School (MDS):** Maruti has established this with the goal to capture the market where there is inhibition in buying cars due to inability to drive the car. This brings that customer to Maruti showroom and Maruti ends up creating a customer.

### III. REPOSITIONING OF MARUTI PRODUCTS

Whenever a brand has grown old or its sales start dipping Maruti makes some facelifts in the models. Other changes have been made from time to time based on market responses or consumer feedbacks or the competitor moves. Here are the certain changes observed in different models of Maruti.

**Omni** has been given a major facelift in terms of interiors and exteriors two months back. A new variant called Omni Cargo, which has been positioned as a vehicle for transporting cargo and meant for small traders. It has received a very good response from market. A variant with LPG is receiving a very good response from customers who look for low cost of running.

**Versa** prices have been slashed and right now the lowest variant starts at 3.3 lacs. They decreased the engine power from 1600cc to 1300cc and modified it again considering consumers perception. This was a result of intensive survey done all across the nation regarding the consumer perception of Versa.

**Esteem** has gone through three facelifts. A new look last year has helped boost up the waning sales of Esteem.

**Baleno** was launched in 1999 at 7.2 lacs. In 2002 they slashed prices to 6.4 lacs. In 2003 they launched a lower variant as Baleno LXi at 5.46 lacs. This was to reduce the price and attract customers.

**Wagon-R** was perceived as dull boxy car when it was launched. This made it a big failure on launch. Then further modifications in engine to increase performance and a facelift in the form of sporty looking grills on the roof. Now it’s of the most successful models in Maruti stable.

**Zen** has been modified four times till date. They had come up with a limited period variant called Zen Classic. That was limited period offer to boost short term sales.

**Maruti 800** has so far been facelifted two times. Once it came with MPFi technology and other time it came up with changes in front grill, head light, rear lights and with round curves all around.

### IV. CUSTOMER CENTRIC APPROACH

Maruti’s customer centricity is very much exemplified by the five times consecutive wins at J D Power CSI Awards. Focus on customer satisfaction is what Maruti lives with. Maruti has successfully shed off the public-sector laid back attitude image and has inculcated the customer-friendly approach in its organization culture. The customer centric attitude is imbibed in its employees. Maruti dealers and employees are answerable to even a single customer complain. There are instances of cancellation of dealerships based on customer feedback.

Maruti has taken a number of initiatives to serve customer well. They have even changed their showroom layout so that customer has to walk minimum in the showroom and there are norms for service times and delivery of vehicles. The Dealer Sales Executive, who is the first interaction medium with the Maruti customer when the
customer walks in Maruti showroom, is trained on greeting etiquettes. Maruti has proper customer complaint handling cell under the CRM department. The Maruti call center is another effort which brings Maruti closer to its customer. Their Market Research department remains on its toes to study the changing consumer behaviour and market needs. Maruti enjoys seventy percent repeat buyers which further bolsters their claim of being customer friendly. Maruti is investing a lot of money and effort in building customer loyalty programmes.

V. COMMITTED TO MOTORIZING INDIA

Maruti is committed to motorizing India. Maruti is right now working towards making things simple for Indian consumers to upgrade from two-wheelers to the car. Towards this end, Maruti partnerships with State Bank of India and its Associate Banks took organized finance to small towns to enable people to buy Maruti cars. Rs. 2599 scheme was one of the outcomes of this effort.

Maruti expects the compact cars, which currently constitute around 80% of the market, to be the engine of growth in the future. Robust economic growth, favorable regulatory framework, affordable finance and improvements in infrastructure favor growth of the passenger vehicles segment. The low penetration levels at 7 per thousand and rising income levels will augur well for the auto industry.

Maruti is busy fine-tuning another innovation. While researching they found that rural people had strange notions about a car - that the EMI (equated monthly instalments) would range between Rs 4,000 and Rs 5,000. That, plus another Rs 1,500-2,000 for monthly maintenance, another Rs 1,000 for fuel (would be the cost of using the car). To counter that apprehension, the company is working on a novel idea. Control over the fuel bill is in the consumer's hands. But, maintenance need not be. Says Khattar: "What the company is doing now is saying how much you spend on fuel is in your hands anyway. As far as the maintenance cost is concerned, if you want it that way, we will charge a little extra in the EMI and offer free maintenance."

VI. DISINVESTMENT AND IPO OF MARUTI UDYOG LIMITED

It was a long and tough journey, but a rewarding one at the end. A reward worth Rs 2,424 crore, making it the biggest privatization in India till date. The size of Maruti’s sell-off deal is proof of its success. On the investment of Rs 66 crore it made in 1982, when Maruti Udyog Limited (MUL) was formally set up, the sale represents a staggering return of 35 times The best part of the deal is the Rs 1,000 crore control premium the Government has been able to extract from Suzuki Motor Corporation for relinquishing its hold over India’s largest car company. Now looking at the strategy point of it – for Suzuki, of course, complete control of MUL means a lot. Maruti is its most profitable and the largest car company outside Japan. Suzuki will now be in the driver’s seat and will not have to mind the whims and fancies of ministers and bureaucrats. “Decisions will now become quicker. The response to changing market conditions and technological needs will be faster,” says Jagdish Khattar, managing director, MUL. After the disinvestment Suzuki became the decision maker at MUL. They flowed fund in India for the major revamp in MUL. Quoting from the report that appeared in The Economic Times, 4th April 2005, - The Indian car giant Maruti Udyog Limited has finalized its two mega investment plans — a new car plant and an engine and transmission manufacturing plant. Both the projects will be implemented by two different companies. At its meeting the company's board approved a total investment of Rs3,271.9 crore for these two ventures, which will be located in Haryana.

The above signifies when GOI was a major stakeholder in the MUL strategies which lead to investment have had a bureaucracy factor in it but after the disinvestment strategy followed is a TOP DOWN approach with a fast implementation.

Suzuki's proposed two-wheeler facility in India, would start making motorcycles and scooters by the end of 2005 through a joint venture, in which Maruti has 51 per cent stake. The two-wheeler unit will have a capacity of 250,000 units a year.
The disinvestment followed by IPO gives the insight in the fact that now all the strategic decisions are taken by Maruti Suzuki Corporation. Disinvestment had helped by removing the red tape and bureaucracy factor from its strategic decision making process.

VII. REALISATION OF IMPORTANCE OF VEHICLE MAINTENANCE SERVICES MARKET

In the old days, the company's operations could be boiled down to a simple three-box flowchart. Components came from the 'vendors' to the 'factory' where they were assembled and then sent out to the 'dealers'. In this scheme, you know where the company's revenues come from. The new scheme is more complicated. It revolves around the total lifetime value of a car.

Work on this began in 1999, when a MUL team, wondering about new revenue streams, traveled across the world. Says R.S. Kalsi, general manager (new business), MUL: "While car companies were moving from products to services, trying to capture more of the total lifetime value of a car, MUL was just making and selling cars." If a buyer spends Rs 100 on a car during its entire life, one-third of that is spent on its purchase. Another third went into fuel. And the final third went into maintenance. Earlier, Maruti was getting only the first one-third of the overall stream. As the Indian market matured, customers began to change cars faster. Says Kalsi: "So the question was, if a car is going to see three users in, say, a life span of 10 years, how can I make sure that it comes back to me each time it changes hands? So Maruti has changed gears to take a big share of this final one-third spent on maintenance. Maintenance market has a huge market potential. Even after having fifty lakh vehicles on road Maruti is only catering to approximately 20000 vehicles through its service stations everyday.

For this they are conducting free service workshops to encourage consumers to come to their service stations. Maruti has increased its authorized service stations to 1567 across 1036 cities. Every regional office is having a separate services and maintenance department which look after the growth of this revenue stream.

VIII. PLAYING ON COST LEADERSHIP

Maruti is the price dictator in Indian automobile industry. It’s the low cost provider of car. The lowest car on road is from Maruti stable i.e. Maruti 800. Maruti achieves this through continuous improvements in operational efficiency and productivity. The company has set itself (and its vendors) the target of a 50% improvement in productivity and a 30% reduction in costs in three years. The ability to keep lowering the prices sets Maruti apart from other players in the league. Maruti spread the overheads over a larger base. The impressive sales and profits were the result of major efforts within the company. Maruti also increased focus on vendor management. Maruti consolidated its vendor base. This has provided its vendors with higher volumes and higher efficiencies. Maruti does that by working with vendors, assuring them that for every drop in price, volumes will go up. Maruti is now encouraging its vendors to develop R&D capability for specialized components. Based upon such activities, product competitiveness in the market will further increase. Maruti also made strides in applying IT to manufacturing. A new Vehicle Tracking System improved efficiency on the shop floor and enhanced quality control. The e Nagare system, adopted from Suzuki Motor Corporation, smoothened Maruti’s Just In Time operations.

C) MAJOR FUTURE STRATEGIES

I. PHASING OUT ZEN IN 2007

The launch of Swift and phasing out Zen is a strategic move. Alto was launched keeping in mind that it will take over Maruti 800 market in future. Perhaps being the flagship product phasing out of Maruti 800 faced lots of resistance from dealers all over. Another reason behind not phasing out Maruti 800 was the fear of brand
shift of customers to other competitor’s product. Swift was launched in May, 2005 in the price band starting from 4 lacs. Before launch of Swift Maruti management had decided that they will phase out Zen since it had already came up with two modifications. The major reason behind this decision was cannibalization of Wagon R and Swift due to overlapping of price band. It is a rational decision to kill a product before it starts facing the decline stage in product cycle. Maruti is offering Rs. 3000.00 more margins to dealer on the sale of Wagon-R as compared to Zen. This is to let dealer push Wagon R instead of Zen.

II. MARUTI PLANS FOR A BIG DIESEL FORAY

The new car manufacturing company, called Maruti Suzuki Automobiles India Limited, will be a joint venture between Maruti Udyog and Suzuki Motor Corporation holding a 70 per cent and 30 per cent stake respectively. The Rs1,524.2 crore plant will have a capacity to roll out 1 lakh cars per year with a capacity to scale up to 2.5 lakh units per annum. The new car manufacturing plant will begin commercial production by the end of 2006.

Maruti would set up a diesel engine plant at Gurgaon in line with its plan to become a major player in diesel vehicles in a couple of years. This has been done in the wake of major competition from Tata Indica and meets the growing demand of diesel cars in India. While the annual growth in the diesel segment was 13 per cent in the last three years, it was 19-20 per cent in the first quarter (April-June) of the current fiscal. Maruti has currently an insignificant presence in diesel vehicle. It will manufacture new generation CRDI (common rail direct injection) engines in collaboration with Fiat-GM Opel and engines will be of 1200 cc. The plant with a capacity to produce one lakh diesel engines would be operational in 2006. At present, Peugeot of France, supplies diesel engines for Maruti’s Zen and mid-sized Esteem models. This will further reduce the imported component in Maruti vehicles, making them more competitive in the Indian market.

III. MARUTI PLANS FOR A NEW ENGINE AND TRANSMISSION PLANT

The engine and the transmission plant will be owned by Suzuki Powertrain India Limited in which Suzuki Motor Corporation would hold 51 per cent stake and Maruti Udyog holding the balance. The ultimate total plant capacity would be three lakh diesel engines. However, the initial production would be 1 lakh diesel engines, 20,000 petrol engines and 1.4 lakh transmission assemblies. Investment in this facility will be Rs.1,747.7 crore. The commercial production will start by the end of 2006.

IV. INDIA AS EXPORT HUB FOR MARUTI

Three years back as an experiment, based on the increasing design capabilities of suppliers in countries like India, McKinsey did an exercise to figure out just how much money could be saved if automobiles were to be made in overseas locations like India, Mexico and South Africa -- an automobile BPO, so to speak. The result was staggering: the industry stands to gain $150 billion annually in cost savings, and an additional $170 billion annually in new revenues once demand shoots up following the drop in prices, and the combination of which means a 25 per cent increase in existing revenue levels.

According to the study, over 90 per cent of automobiles today are sold in the countries they are made in, so there's a lot of money to be made by shifting the production overseas. Till recently, just 100,000 cars produced in low-cost countries were exported to high-cost ones -- presumably this figure is going up now that Altos from Maruti, Santros from Hyundai, Indicas from Tata Motors, and Ikons from Ford, among others, are being regularly exported out of India.

Yet, as McKinsey points out, since it just costs $ 500 and just three weeks (and both figures are falling) to ship out a car to anywhere in the world, why produce cars in high-wage islands? If a car was produced in India instead of in Japan, the study says, it will cost 22-23 per cent less, after factoring in higher import duties for components/steel, lower levels of automation, and transport costs.
In August, 2003 Maruti crossed a milestone of exporting 300,000 vehicles since its first export in 1986. Europe is the largest destination of Maruti’s exports and coincidentally after the first commercial shipment of 480 units to Hungary in 1987, the 300,00 mark was crossed by the shipment of 571 units to the same country. The top ten destination of the cumulative exports have been Netherlands, Italy, Germany, Chile, U.K., Hungary, Nepal, Greece, France and Poland in that order.

The Alto, which meets the Euro-3 norms, has been very popular in Europe where a landmark 200,000 vehicle were exported till March 2003. Even in the highly developed and competitive markets of Netherlands, UK, Germany, France and Italy Maruti vehicles have made a mark. Though the main market for the Maruti vehicles is Europe, where it is selling over 70% of its exported quantity, it is exporting in over 70 countries.

Maruti has entered some unconventional markets like Angola, Benin, Djibouti, Ethiopia, Morocco, Uganda, Chile, Costa Rica and El Salvador. The Middle-East region has also opened up and is showing good potential for growth. Some markets in this region where Maruti is, are Saudi Arabia, Kuwait, Bahrain, Qatar and UAE.

The markets outside of Europe that have large quantities, in the current year, are Algeria, Saudi Arabia, Srilanka and Bangladesh. Maruti exported more than 51,000 vehicles in 2003-04 which was 59% higher than last year. In the financial year 2003-04 Maruti exports contributed to more than 10% of total Maruti sales.

V. MARUTI EMERGING AS R&D HUB FOR SUZUKI MOTOR CORPORATION

Japanese auto major Suzuki is all set to convert Maruti Udyog Ltd’s research and development (R&D) facility as its Asia hub by 2007 for the design and development of new compact cars, according to a top official of the firm. The country’s leading car manufacturer will make substantial investments to upgrade its research and development centre at Gurgaon in Haryana for executing design and development projects for Suzuki. This includes localisation, modernisation and greater use of composite technologies in upcoming models.

The company will be hiring more software engineers and technocrats to handle Suzuki’s R&D projects. Investment would be more in terms of manpower than in infrastructure, which is already in place. Apart from working on innovative features, the R&D teams will focus on latest technologies using CAD-CAM tools to roll out new models that will meet the needs of MUL’s diverse customers in the future.

The reasons as to why it can be good for R&D is that

- Firstly the cost involved in R&D and infrastructure is low in India as compared to other countries. Also the technical skills are abundantly available; again at a cheaper cost.
- Secondly, India is growing as an export hub along with the Indian market growing aggressively into becoming an attractive one for investors.
- Thirdly, Suzuki’s investment in India, is also important as it has completely divested now as a result MUL will now become a 100% subsidiary of Suzuki in the coming year.
KEY SUCCESS FACTORS

(1) The Quality Advantage

Maruti Suzuki owners experience fewer problems with their vehicles than any other car manufacturer in India (J.D. Power IQS Study 2004). The Alto was chosen No.1 in the premium compact car segment and the Esteem in the entry level mid-size car segment across 9 parameters.

(2) A Buying Experience Like No Other

Maruti Suzuki has a sales network of 307 state-of-the-art showrooms across 189 cities, with a workforce of over 6000 trained sales personnel to guide MUL customers in finding the right car.

(3) Quality Service Across 1036 Cities

In the J.D. Power CSI Study 2004, Maruti Suzuki scored the highest across all 7 parameters: least problems experienced with vehicle serviced, highest service quality, best in-service experience, best service delivery, best service advisor experience, most user-friendly service and best service initiation experience. 92% of Maruti Suzuki owners feel that work gets done right the first time during service. The J.D. Power CSI study 2004 also reveals that 97% of Maruti Suzuki owners would probably recommend the same make of vehicle, while 90% owners would probably repurchase the same make of vehicle.

(4) One Stop Shop

At Maruti Suzuki, customers will find all car related needs met under one roof. Whether it is easy finance, insurance, fleet management services, exchange- Maruti Suzuki is set to provide a single-window solution for all car related needs.

(5) The Low Cost Maintenance Advantage

The acquisition cost is unfortunately not the only cost customers face when buying a car. Although a car may be affordable to buy, it may not necessarily be affordable to maintain, as some of its regularly used spare parts may be priced quite steeply. Not so in the case of a Maruti Suzuki. It is in the economy segment that the affordability of spares is most competitive, and it is here where Maruti Suzuki shines.

(6) Lowest Cost of Ownership

The highest satisfaction ratings with regard to cost of ownership among all models are all Maruti Suzuki vehicles: Zen, Wagon R, Esteem, Maruti 800, Alto and Omni.

(7) Technological Advantage

It has introduced the superior 16 * 4 Hypertech engines across the entire Maruti Suzuki range. This new technology harnesses the power of a brainy 16-bit computer to a fuel-efficient 4-valve engine to create optimum engine delivery. This means every Maruti Suzuki owner gets the ideal combination of power and performance from his car.
FUTURE CHALLENGES

- Maruti has always been identified as a traditional carmaker producing value-for-money cars and right now the biggest hurdle Maruti is facing is to shed this image. Maruti wants to change it for a more aggressive image. Maruti Baleno has failed due to one of the major reasons being that customers could not identify Maruti with a car as sophisticated as Maruti Baleno. Maruti is looking forward to bring about a perception change about the company and its cars. Maruti started the exercise with the new-look Zen, and Suzuki’s decision to pick India as one of the first markets for this radically different-looking car gave this endeavor a new thrust. Maruti has also changed its logo at the front grill. It has replaced the traditional Maruti logo on grill ‘stylish ‘M’ with S’. The major thrust in the facelift endeavour is with the launch of 1.3 litre Swift. It’s a style statement from Maruti to Indian market.

- The next threat Maruti faces is the growing competition in compact cars. Companies like Toyota, Ford, Honda and Fiat are planning to come out with small segment cars in near future. Ford is launching Focus and Fiesta, GM is launching Aveo in 2006, Chevrolet is launching Spark in 2006, Hyundai is launching its new compact car in 2006, Honda is launching Jazz in 2006, GM is has reduced prices of its Corsa, Fiat is coming up with Panda and new Fiat Palio, Skoda is launching Fabia. All this will pose a major threat to Maruti leadership in compact cars.

- New emission norms like Bharat Stage 3 which has come into effect from April 2005 has increased car prices by Rs.20000 and Bharat Stage 4 which is coming into force in 2007 will contribute in increasing car prices further. This could be of concern to Maruti which is low cost provider of passenger cars.

- Rise in petrol prices and growing popularity of other substitute fuels like CNG will be another threat to Maruti. There is also a threat to Suzuki from R&D investment by Toyota and Honda in Hybrid cars. Hybrid cars could run on both petrol and gaseous fuels.

- There is a threat to Maruti models ageing. Maruti models like Maruti 800 which is in market for the last twenty years and others like Zen and Esteem which have also entered the decline phase are the other threats. Maruti is planning phasing out Zen in 2007 and there were rumors of phasing out Maruti 800 also. This all makes Suzuki to replace these brands with new launches. As Swift and Wagon R are replacing the Zen market. Maruti will have to keep on making modifications in its present models or its models will face extinction.