

Chapter 13

Indian Luxury Car Market

Changing Lanes: A Case of BMW India

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EXECUTIVE SUMMARY

Aston Martin has recently introduced itself to India. Many perceive it as a routine entry of another car maker. However, this specific entry isn't coincidence, but a calculated move. It has to do with the recent unexpected growth in the Indian luxury car market which is more than just market dynamics. It is something which reflects a changing lifestyle pattern of a class which is called affluent. The growth rate for these cars with a price tag which is above Rs. 25 lacs has been 20% on average for the some years. When the whole world was facing recession the Indian luxury car market grew by 23% to 6671 units as per the Society of Indian Automobile Manufacturers (SIAM) despite half a percent decline in passenger car sales, to 11.04 lakh vehicles (Dovel, 2011). 2010 has shown growth in the automobile sector which was up by 25%. Indian luxury car market had been dominated by Mercedes Benz (entered in India in mid 1994) until 2009 where it was outscored by BMW which entered India in 2006. Mercedes Benz's market share of 90% shrank to 38% and its market share largely fell to BMW which has 42%. This case will study the factors responsible for the growth of the Indian luxury car market with reference to BMW's quick growth to the top with the help of cars customized for Indian infrastructure conditions, an aggressive distribution strategy, pricing designed in lieu of competition, and comprehensively smart promotional efforts.

DOI: 10.4018/978-1-4666-4357-4.ch013

INTRODUCTION

A recent study conducted by Booz & Co. reveals that the widespread paradigm shift of the global economy in Asia towards the automotive industry will drive India to bag 4th position in the global market by 2015 and surpass the European Nations. The automotive industry is one of the leading industries in India for FDI, and the U.S. automakers have made considerable investments since the early-1990s. With a large and growing middle class population, the smaller car segment has seen a fair upswing in recent years as per the report. As income levels go up, the share of larger cars will also increase in the times to come. There is a potential for Indian market to touch revenues of \$150-\$200 billion by 2030, projecting that India will soon be bigger than most other markets as per the same report. Report further shown that the FDI in the auto sector is expected to exceed that in most other sectors. India is likely to attract \$ 25-35 billion in FDI over the course of the next 10 years for the automotive industry. Over the next 20 years, India will be part of global automotive triumvirate the global BIG 3 in light passenger vehicle segment.

GROWTH DRIVERS OF INDIAN LUXURY CAR MARKET

Youngest Population

India has the youngest population in the world. India has world's 17% (765 million) of working population (17-64 years) as per a Morgan Stanley report. The philosophy of this younger population is quiet different than others. Demand for young engineers, MBAs, CAs, and doctors is greater than ever as Indian, as well as MNCs, are expanding like never before. They want to work & enjoy. A substantial part of their income goes into leisure activities like dining out, travelling, owning latest gadgets, cars, and so forth. This has caused the demand for these kind of products & services to soar. Average age of luxury car buyers has constantly been decreasing. In case of BMW it has come down to just 40 years. Figure 1 gives a clear picture of this phenomenon.

Easy Financing

Getting a car financed in India is very easy if one has got positive credentials in terms of income. Interest rates are very competitive due to a large number of private & public sector banks. Banks are ready, more than they ever to fund. As much as 95% of the showroom price of the vehicle is being funded by many banks. Manu-

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