The Cargo Tray Industry in India – A Market Research
Preface

This thesis is written in Mumbai, India. We spent one Swedish spring semester at Welingkar University in Mumbai, from January 2010 to May 2010. We were granted a scholarship from the Linnaeus-Palme institution and that made it possible for us to go to India. During the first half of this period we took four marketing classes together with 60 Indian students. This was a great opportunity for us to get new friends and to learn about the Indian culture. Together with two German students we were the only two exchange students at the University. The fact that there was so few exchange students was a good thing for us since we then had to socialize with Indians and learn more about their world.

During the second half of our stay we wrote this thesis. Our aim was to use our experience of India and implement it into this thesis. Since we have a good relationship with the CEO, Sven Isaksson at Autoform we contacted him and asked if he was interested in the Indian market. They gave us the assignment to investigate the Indian cargo tray market, which is a big part of Autoforms production. This also included an overview of the Indian automobile industry and the Indian business environment. We accepted this assignment and by making this market research we are giving Autoform and ourselves a great knowledge about India and we also get a deeper knowledge how to conduct a sustainable market research.

Acknowledgement

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Abstract

Title: The Cargo Tray Industry in India – A Market Research

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Research question: Is the Indian cargo tray industry a promising place for Autoform to make future investments?

Target group: The primary target is Autoform. The secondary target group is other car accessories manufacturers who want to know about the Indian car industry. The third target group is any foreign company that wants to know about India and their regulations towards foreign companies entering India.

Purpose: The purpose is to give Autoform knowledge about the Indian car- and cargo tray market, as well as to give them an overview about India and their regulations towards foreign companies entering India.

Theoretical framework: The theoretical framework consists of a PEST analysis for the business environment, Porters five forces for the cargo tray industry and our model for the overview of the automobile industry.

Methodology: This thesis is based in both primary and secondary information that have been gathered within the frame of our theoretical framework.

Analysis/Discussion: The analysis consists of a comparison between the empirical content from each of the different models used for the empirical research. By highlighting the most relevant findings of the data from each model and put it together we can draw conclusions and make direct connections between the business environment in India and the car- and cargo tray industry.

Conclusions: The answer to the research question is that the Indian cargo tray industry is a promising place for Autoform to make future investments. However there are many factors and forces to consider and be aware of.
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Definitions
FDI – Foreign Direct Investment
WTO – World Trade Organization
GDP – Gross Domestic Product
PPP – Purchasing Power Parity
SEZ – Special Economic Zones
R&D – Research and Development
RBI – Reserve Bank of India
UV – Utility Vehicle
SUV – Sport Utility Vehicle
MUV - Multi Utility Vehicle

Cargo Tray - Can be described in many words. Except from the word Cargo Tray, words like Trunk Tray, Cargo Liner, Cargo Mat, Anti Slip Mat and Trunk Liner are words used in Europe for the same product.
In India the word Cargo Tray sometimes means the tray that is between the boot space and the passenger coupé, as seen in the picture below. In India the words for Cargo Tray is Boot Space Mat, Dicky Mat, Rubber Mat, Boot Mat and Luggage Space Mat. In this thesis we have choose to use the word Cargo Tray.
1. INTRODUCTION

Autoform is today one of Europe’s leading manufacturer of vacuum formed plastic products to the global automobile and aftermarket industry for automobile parts. The company is a part of Calix Group AB, together with Pepe AB and Calix AB. They are located in Malung, Sweden and have approximately 85 employees. The Production is focused on vacuum forming of thermoplastics. Their main product groups are roof boxes, cargo trays, cargo cover, storage boxes for the trunk, and contract production of custom plastic components for various purposes. (autoform.se, about)

The production is located in Malung, and the export share is around 80 percent and is spread across Scandinavia, Europe and the U.S. Autoform currently has partnership with 19 of the world’s leading automobile manufacturers who market their products as original accessories under its own brand, for example Ford, Toyota and Mercedes. Each product is customized for each vehicle model and their development team designs the products in 3-D environment in close Cooperation with their partners. They are also active in the aftermarket for car accessories in which they advertise cargo trays and cargo covers under its own brand. (autoform.se, about)

The Indian market is different in many ways from the European- and the US market. The government of India has a range of different regulations applied towards foreign companies that is important to have knowledge about when considering India as a potential market.

As mentioned above Autoform is currently working in the European- and the US market. As the Indian market has been growing over the last two decades, Autoform find this market interesting. Autoform is interested in either to export their products or to build their own factory in India to reach the Indian market. The problem is the lack of knowledge about India and the Indian car- and cargo tray Industry.

1.1 RESEARCH QUESTION & PURPOSE

Is the Indian cargo tray industry a promising place for Autoform to make future investments?

The purpose of the thesis is to give Autoform knowledge about the Indian car- and cargo tray industry, as well as to give them an overview about India and their regulations towards foreign companies enter India. By doing this we will get answers on whether the Indian market is a potential market for future investment for Autoform.

This market research is focused on cargo trays. Autoform are using vacuum technique to form their cargo trays and the raw material they are using is PP (Polypropene). They are perfectly fitted to each car model, light weight, thin, stable and easy to remove and clean. As seen in picture 1 and 2 the cargo trays are formed with edges.

Picture 1: Cargo Tray (autoform.se, about)
1.2 THE POTENTIAL MARKET

India is today the world’s biggest democratic country with almost 1.2 billion inhabitants and the world’s 12th biggest economy. Indian is a diversified country with 22 official languages and many different religions, the biggest religion is Hinduism and 80.5 percent of the population is Hindus. (swedishtrade.com, India Fact Pack)

1947 India became free from over 200 year rule by Britain. The following years after the proclamation of independence India adopted a nationalistic socialist posture towards the economy. The philosophy was self-reliance and self-sufficiency and to keep foreign companies out from India the government introduced high tariffs on imported goods. (Bharath et al 2007, p.68)

The 1980s was the start for India’s economic liberalization but it was not until 1991 the real breakthrough reforms started. 1991 is often mentioned as the year when new India was born and at that time various reforms where done to deregulate the economy and to open up the market towards international trade and investment. The reforms gained a positive effect on India’s economy and the GPD increased together with the foreign direct investment. (Parikshit, 2007, p.666) Since then various reform have been made, for example the modification of the tax structure in 1997, and the reform programs are still in progress (swedenabroad.com, Om Indien).

Since the beginning of the 1990s, India’s annual growth of GDP has been around six to seven percent except from 2005-2007 when the growth of GDP was more than nine percent. This makes India to one of the world’s fastest growing countries. The growth rate decreased in 2008-2009 partly because of the global financial crisis but the growth rate is predicted to stabilize around six to seven percent within the next few years. (swedenabroad.com, Om Indien)

Even though India is growing fast and the middle class segment is increasing rapidly, the poverty in India is a big issue. In 2009, 350 million people lived below the poverty line of less than one dollar per day, also called absolute poverty. This makes India to the country in the world with the highest number of people suffering from absolute poverty. (Kalyanaram, 2009, p.57-58)

1.2.1 THE INDIAN & SWEDISH MARKET EXCHANGE

Sweden is a small trading partner for India, 0.8 percent of India’s import market is Swedish and 0.3 percent of India’s exports go to Sweden. But this numbers are likely to change in the future as the
trading volume grew 17.7 percent between 2007 and 2008. (swedishtrade.se, India Fact Pack) The main Indian import from Sweden is engineering products, telecom fuel, chemical products and raw materials and because of the relatively cheap labor in India some of Sweden’s biggest company’s such as H&M, Astra Zeneca and Volvo have factories in India. Some of the main Indian export to Sweden is leather products, machinery and instruments, cotton, fabrics, carpets and handicrafts. (indianembassy.se, Indo - Swedish trade)

1.2.2 THE INDIAN AUTOMOBILE SECTOR

India is now the 11th largest market in the passenger cars segment, and is expected to be the 7th largest market in the world by 2016. Since early 2008 the world is facing the impact of the cruelest downturn of the past 60 years. In the US and Western Europe all auto markets registered a decline in sales and orders. The automotive sales fell by 5 to 6 million units worldwide during the year of 2008 and the situation was at its worst the last quarter of the year. (Datta, 2010, p.131)

The Indian domestic auto industry had a double-digit growth for around five years in a row until 2008, but has slowed down and the growth for 2008-09 was around 3.4 percent in production. The worst period was in October 2008 when the fall was most evident and each segment ended up in negative growth (Datta, 2010, p.135)

Despite the global automobile industry continued to decline in 2009, the Indian industry mostly went against the trend, launched new models for the domestic market and also registered a growth in exports. During 2007-08 the overall car market in India grew around 15 percent, and experts predict a similar pattern in 2010. (economictimes.indiatimes.com, Indian auto industry, 2009-12-25)

According to Ernst and Young the Indian passenger car market is predicted to grow at twelve percent annually over the next five years. That means from 1.89 million units at 2008-09 to around 3.75 million units by 2014. The growing auto industry in India is largely driven by the country’s large middle class with growing disposable incomes. (economictimes.indiatimes.com, Indian auto industry, 2009-12-25)

Indian Auto component Industry is an emerging industry in India and the industry constitutes only around 0.4 percent of the global auto component industry and is expected to increase to around 1.5 percent by 2015 (Cygnus, Indian auto components, 2009, p.5). The industry is one of India’s fastest growing manufacturing sectors and between fiscal years 2004 and 2008 it had a compound annual growth rate of 27.8 percent but slowed down during the worst period of the financial crisis (ibid, p.6). The turnover in 2008-09 was over US$ 19.1 billion and the industry’s is estimated to touch US$ 40 billion by 2015-16 (ibef.org, Auto components, 2010).

1.3 TARGET GROUP

The primary target is Autoform. The secondary target group is other car accessories manufacturers who want to know about the Indian car industry. The third target group is any foreign company that wants to know about India and their regulations towards foreign companies enter India.
2. Methodology

In this chapter we will present the different methods we have used to conduct the market research.

2.1 Research Method

All of the interviews we have conducted are qualitative except from those made in the garage. The aim with those interviews was partly to gather information about their perception and usage of the cargo tray and hence that gathering of information can be considered quantitative. We also use data based on numbers and diagrams in this thesis, especially in the chapter about the automobile industry. This can also be considered as a quantitative approach.

This thesis is partly about understanding and partly about prediction, understanding about India’s business environment and the cargo tray industry and prediction about what the future will look like in the automobile industry, indirect the cargo tray industry.

2.2 Development of Analytical Framework

The cargo tray industry is a part of the automobile industry and both of them is a part of India’s business environment. To make a solid market research and to answer the research question we had to include the industry where the product appears and the environment in which it appears. With this in mind we searched for suitable methods for both industries and for the analysis of the business environment in India.

We came up with a PEST analysis for the business environment, Michael E. Porter’s five forces model for the cargo tray industry and our own model for the overview of the automobile industry. PEST analysis includes political, economic, sociocultural and technology factors (netmba.com, PEST Analysis). Porter’s five forces include suppliers, customer, potential entrants, competitors and substitute products (Porter, 2008, p.3). Our own model includes market size and growth rate, major players, future trends and distribution.

To identify the macro factors on the Indian market we decided to use a PEST analysis. The PEST analyze only considers the external macro environment around a company and the model is a good complement to Porter’s Five Forces (netmba.com, PEST Analysis). We used Michael E. Porters model, Porter’s five forces because the model is appropriate to determine the competitive intensity in different markets. We find that Porter’s five forces are an easy and effective way to describe a rather complex analyze. To answer the research question we had to gather information about competitors and their situation on the Indian market. To present this information in a simple and effective way we thought that Porter’s five forces was the best alternative. The cargo tray industry is a part of the automobile industry and in order to make a sustainable market research about the cargo tray industry the automobile industry is important to take in consideration and we used our own model to gather information about the automobile industry. Figure 1 describes the analytical framework.
2.3 **SECONDARY DATA**

Christensen (2001, p.87) has defined secondary data as information that already has been collected and is available in types such as magazines, research papers, articles, books, trade information and the Internet. The answer to many questions are often found in the reports from organizations or in other published materials. Secondary research is an established method for collecting secondary data, the advantages are that there is a wide range of sources, it is cost effective, time efficient, and can be performed with complete confidentiality (Chisnall, 1986, p.37). The disadvantages are that useful data may be missing (Christensen 2001, p.102). There is also a possible risk that some secondary data that is found is collected for a different purpose with lack of objectivity (Ghauri et al 2005, p.91).

The secondary data collection should be made in the initial phase of a research, because the information from this data may often be sufficient for the further research and will help to develop the overall research strategy (Chisnall, 1986, p.37). We started or work collecting data from the Internet, textbooks, research papers, journals and articles. To find articles and journals we used Mälardalens University databases Elin@malardalen, Emerald and also Emergin market information service (EMIS) database from Welingkar University. This gave us a good basis for how to plan the further research and what gaps we had to fill with primary data.
The cargo tray industry is a small and very specific segment in the auto industry. The existing secondary data of this segment is limited which makes the work dependent on primary data. Primary data collection methods are decided and controlled by the researcher (Brannick, p.16). After gathering all the secondary data we saw were information was missing and where we needed to make effort to collect primary data. When secondary data is not good enough to answer your research question primary data becomes crucial to ensure the quality of the research. (Ghauri et al 2005, p.102) We had a hard time finding any secondary data on the cargo tray industry in India so most of the primary research was focused on this part.

One of the problems with primary research is to find companies that are suitable for the kind of survey that you are conducting (Chisnall, 1986 p.251). Help from an expert is valuable in forming hypotheses about certain market situations. Researchers should attempt to contact these experts who may be recommended to them by helpful sources. (Chisnall, 1986 p.252) We took advantage of the broad net of contacts that Welingkar University possesses and that helped us to collect some of the information we needed for the primary research.

The main focus of the primary data collection was to gather information about the cargo tray industry. We wanted to get information about different materials, different manufacturing methods, pricing, and concentration of cargo trays in Indian cars, etc. We gathered information from manufacturers, car dealers, auto component shops and from the final consumers that is the car owners. We chose to interview various parts of the chain of distribution of the cargo tray to get as much and reliable data as possible. During the interviews we have always been two persons to avoid that no information would be lost and to maintain objectivity.

2.4.1 PERSONAL INTERVIEWS
There are a large number of interview techniques and it is important to be aware of the information the various interview forms tend to produce. We decided to use personal interviews with open ended questions where we had questions as a framework. When the personal interviews are used it provides a flexible situation which has several advantages. For example by performing this interview method any misunderstanding or ambiguity can be clarified because you can easier explain the meaning of the questions. Personal interviews also provides the advantages of open ended questions to be used in a more useful way and to have open ended questions contributes to a better understanding of the respondent’s personal experience. (Wärneryd, 1993, p.13-14)

We thought that the different respondents would give different facts and insights about the cargo tray. Therefore we used this interview technique so as not to limit the respondents to provide information only about the questions we asked. To make the interviews as smoothly and conveniently as possible one of us quoted aid schemes, while the other took care of the interview. The negative aspect of this interview method was that it sometimes became a bit difficult to keep up with the writings and sometimes the interviews lost focus.
We choose to interview four different car dealers representing five different major car brands and three different auto component shops in Mumbai, India. Below, we present the respondents.

The interviews were made on the basis of convenience sampling. All respondents are selected based on whether they had time to meet us or not. The respondents for personal interviews were auto component shops and car dealers and we used different framework of questions for these two. See (Appendix 1) for the auto component shops and (Appendix 2) for the car dealers.

Ujwal car point is an auto component shops in Sion, Mumbai. Sion is a district that is famous for their high concentration of car related shops on one of the streets there are 14 shops. At Ujwal car point we interviewed the manager and owner Sonu. Sonu spoke perfect English but was very stressed so the interview was over quick. These shops are usually very small so the interview situation was kind of noisy with people running around. Sonu will be referred to as Sonu at Ujwal.

Laxman is another auto component shop in Sion, Mumbai located only 20 meters from Ujwal car point. There we spoke to Rohit Gaupta who was the manager and owner. Rohit was a little bit difficult to understand and the same conditions prevailed there as at Ujwal car point. Rohit Gaupta will be referred to as Rohit at Laxman.

Lakshmi was the third and last auto component shop that we interviewed. Lakshmi is located at the same street as the two previous shops. There we spoke to Ankush Taiwar who was a very nice and helpful manager. Ankush Taiwar will be referred to as Ankush at Lakshmi.

Auto Hangar (India) Pvt. Ltd. is a certified dealer for Mercedes-Benz in Mumbai, India. At Auto Hangar we interviewed to Yash Mody who is a Sales consultant. Yash Mody was very helpful and gave us a lot of insights. Yash Mody will be referred to as Yash at Mercedes-Benz.

Jayabharat Automobiles Limited is a certified dealer for Hyundai in Mumbai, India. At Hyundai we interviewed Nayan Chauhan who was a Sales consultant. Nayhan Chauhan will be referred to as Nayan at Hyundai.

Concorde Motors (India) Limited is certified dealer for TATA Motors and Fiat in Mumbai, India. At Concorde we interviewed Pankaj Adrekar who was a senior executive. He was a very nice man and really took his time with us. Pankaj Adrekar will be referred to as Pankaj at TATA.

Nikhil Automobiles Pvt. Ltd. is a showroom for Chevrolet in Mumbai, India. First we interviewed Vaibah Mirjakar who is a senior sales consultant and when he could not answer the questions anymore, Sendeep Juvali who is Accessories In charge helped us out. Both of them were very helpful and accommodating. Vaibah Mirjakar will be referred to as Vaibah at Chevrolet and Sandeep Juval will be referred to as Sendeep at Chevrolet.

2.4.2 CONSUMER RESEARCH
As another part of the field research we decided to talk to the car owners of Mumbai, this was the first primary data collection that we did. The aim of this method was to find out what kind of cargo trays
people in India used and how many cars actually had a cargo tray. In addition to this we got insights about people’s knowledge and attitudes towards the cargo tray.

In order to carry out the study we used the garage in the basement of Welingkars University in Matunga, Mumbai, as the survey site. When a car owner (usually faculty of the university) came down to the basement to retrieve their cars we asked them if it was in order to ask a few questions and in 100 percent of the cases it was ok.

We used a framework of questions (Appendix 3) and took notes, but depending on how receptive the respondent was we held the interviews for different periods of time, usually 4-5 minutes. We asked all respondents if we could peek into their luggage compartments and in all cases except two it was ok. In total, we interviewed 48 car owners. This survey will be referred to as the garage.

2.4.3 E-MAIL INTERVIEWS
In order to obtain information from the manufacturers of cargo trays we used e-mail interviews. We found three of the respondent on dir.Indiamart.com and alibaba.com. These two websites connect buyers and suppliers/manufactures by providing company- and contact information about various companies in different branches. The main aim of contacting the manufacturers was to get information about manufacturing methods and materials used. We sent a total of five emails and got answer from three of them which means a loss of 40 percent. We also contacted Zareer Pardiwalla who was given by the Dean of Welingkar University Bangalore, Dr. Anil Rao. He is responsible for Mahindra & Mahindra’s second hand car market so we gave him the same questions (Appendix 2) as the car dealers. We sent e-mails to the following:

Gurdeep Singh, Senior Rubber PVT.Ltd.
Param Solanki, Hans Rubber Industries
Sadaquat Hossain, VIP Auto Industries
Zareer Pardiwalla at Mahindra & Mahindra. He is responsible for the second hand car market of Mahindra & Mahindra. We asked him the same the same questions (Appendix 2) as we asked the car dealers.

All of the respondents will be referred by their first name plus company name.

We used a mix between close ended questions and open ended questions and we choose to write the questions directly in the email (Appendix 4) and not to attach a document or survey, just to facilitate the response process from the respondents.

2.5 ANALYZING EMPIRICAL FINDINGS
The analysis consists of a comparison between the empirical content from each of the different models used for the empirical research. The analyze focus on the most beneficial aspects and the most negative aspects from Autoforms point of view. By highlighting the most relevant findings of the data from each
model and put it together we can draw conclusions and make direct connections between the business environment in India and the car- and cargo tray industry.

By objectively looking at the analysis we can make suggestions to Autoform how and if to enter India. Figure 2 shows how we interweave the three different areas to create an analysis.
3. THEORETICAL FRAMEWORK

In this chapter we will present the theoretical framework that we have used to conduct the market research.

3.1 PEST ANALYSIS

There are many factors in the macro environment that will affect the decisions a company has to take when entering a new market. These factors are dynamic, in most cases uncontrollable and differ around the world. To investigate these factors we have chosen PEST analysis. The P stands for political factors, E for economical factors, S for sociocultural factors and T for technological factors. Sometimes is legal and environmental factors added but we decided to not include those because political and legal is best described together and in this research the environmental factor is not crucial. In some cases the PEST- or the PESTLE factors is divided into Local, National and Global (oup.com, pest-analysis, 2007). We have focused on the National aspect. The content in the four factors are very different depending on who the investigator is.

3.1.1 POLITICAL-LEGAL FACTORS

The political system existing in a country decides, promotes, encourages, shelters, directs and controls the business activities in a country. A political system that is efficient, stable and dynamic, by democratic principles ensures citizens involvement in politics is a primary factor for economic development (Aswathappa, 2009, p.130) Sometimes change in the laws can create new opportunities in business. For example have the regulations of recycling and environmental - friendly products and fuels in U.S given the recycle industry a boost lately. (Kotler et al 2005, p.93)

The political approach towards foreign companies and trade is another aspect of political environment. On what level is the government accommodating to foreign firms and what are the policies towards foreign direct investment (FDI) and trade. The FDI in a country can generate competition among companies and in that way lower the prices for consumers. (Aswathappa, 2009 p.130) To protect domestic industries some countries like India for an example have regulations towards FDI.

3.1.2 ECONOMICAL FACTORS

A profitable market requires purchasing power. The purchasing power in a country depends on current income, prices, inflation, savings, debt etc. The power of different consumer segments in different countries is constantly changing so as a marketer you have to pay a lot of attention to these trends (Kotler, et al 2005 p.87).

The PPP (purchasing power parity) often goes hand in hand with the employment situation in the country and this factor is also important to consider in order to know how much to pay for labor. The buying power of customers is affected by savings, debt and credit availability. (Kotler, et al 2005 p.87)

To move raw material, labor, machines and goods effectively within a country you will need a well developed road- and railroad system. To run for example a factory you will need reliable electricity and to send mail, packages, use internet and make phone-calls you'll need a modern communication system. Those factors of infrastructure are taken for granted in many western countries but they should not be ignored when looking at new markets. (Aswathappa, 2009 p.326)

3.1.3 SOCIOCULTURAL FACTORS
The society in which people live is a complex and important factor to keep in mind when investigating the business environment in a country. Society shapes beliefs, values and norms that define different tastes and preferences. Unconsciously people living in a certain way that defines and affects their relationship to themselves, citizens, society, companies and the nature (Kotler, et al 2005 p.88).

3.1.4 TECHNOLOGICAL FACTORS
New technology can reduce costs, improve products quality and lead to improvements and innovations in the way we do business. The development of new products usually benefit the consumers as well as the companies providing the products, online shopping, bar coding and online tickets are examples of such innovations. On the other hand lack of technology or obsolescence technology can make it difficult and expensive to produce goods (oup.com, pest-analysis, 2007).

The amount of money spend on Research and Development, R&D, from a country can give a glimpse of their strategy towards science and on which area they want to focus their R&D (Kotler, et al 2005 p.93). Sweden for example is the country in Western Europe that uses the highest percent of GDP to R&D, 3.7 percent. Of these 3.7 percent 45.7 percent is used to finance research via universities (norden.org, science and technology).

3.2 THE AUTOMOBILE INDUSTRY
The cargo tray industry is a part of the automobile industry and is therefore affected by the number of manufactured cars. One example of this is the global financial crisis that affected the automobile industry very hard in 2008 and 2009. Supplier companies who focused on the automobile industry was hit very hard of the downturn and those who was dependent on one or few big customers was hit even harder (sverigesradio.se, svårare kris, 2009). It can be a smart move to look in new markets, but it also comes with a big risk. Companies branching out into new markets might bet on the wrong things or the timing might be off. If the suppliers do not make a careful research, the starting the costs entering a new market will not pay off (online.wsj.com, German parts suppliers, 2009).

In the automobile industry research we have chosen to include market size and growth rate, major players, future trends and distribution. How big is the automobile industry in India, what is the expected growth rate. This is the major factor that gives a broad overview of how big the market is. Who are the major players, which car models are most sold. This factor helps to understand which companies to focus on trying to establish business relationship. What about the future trends, new models, midsize cars or small size cars. Future trends are important to know in case of how to plan your market strategy. How is the distribution in India working? This gives an overview how the distribution channels are working. All these factors must be taken care of. Despite there is a fast growing industry, profitability cannot be guarantee if customers are strong or substitutes are attractive. A common mistake is that fast growing industries always are attractive. A narrow focus on growth is one of the big mistakes that cause bad strategy decisions. (Porter, 2008, p.22) Therefore we have chosen to look at a broader view of the industry, as a supplement to the Porters five forces, and a PEST analysis.

3.3 PORTER’S FIVE FORCES
Competition is often defined too narrow, as if it occurred only among today’s direct competitors. To go beyond established industry rivals four other competitive forces are included as well: suppliers,
customer, potential entrants and substitute products, see figure 3. These five forces define an industry's structure and shape the nature of competitive interaction within an industry. (Porter, 2008, p.3)

Understanding of the five competitive forces, and its underlying causes, shows the foundation of an industry's prevailing profitability, while giving it a framework to predict, and influence the competition and profitability over time. It is also important to understand an industry's structure to effective the strategic positioning. It is therefore crucial for a company's strategy to defend against the competitive forces and shape them to the company's advantage. (Porter, 2008 p.4)

3.3.1 Threat of New Entry
Above-average returns will always attract potential entrants into an industry. With new entrants come new capacity and a desire to win market share. That puts pressure on costs, prices and the rate of investments that is needed to compete. The threat from new entrants in an industry depends on how high the barriers are and the reaction of the incumbents when newcomers enter. Defending high profitability means there have to be barriers to entry. (Porter, 2008, p.8)

Entry barriers are the advantages that the existing companies have towards new entrants. There are some major sources like supply-side economies of scale, capital requirements, incumbency advantages independent of size, unequal access to distribution channels, restrictive government policy. (Porter, 2008, p.9)

*Supply-side economies of scale*, these economies of scale arise when companies that produce at a large volume get lower costs because they can spread their fixed costs over more units, use more efficient technology, or create better terms from suppliers. This forces new entrants to come into the industry on a large scale or to accept a cost disadvantage. (Porter, 2008, p.9)

*Capital requirements*, if the entry needs large financial investments in order to compete, it can deter newcomers. For example, expensive facilities extend customers credit, research and development and
technology etc. It is important to realize that the capital requirements not deter all new entrants. If the industry's profitability is attractive and expected to be, and if capital markets are efficient, investors will give newcomers the resources needed. (Porter, 2008, p.11)

**Incumbency advantages independent of size**, established companies may have different advantages not available to potential newcomers. It can be cost or quality advantages such as patented technology, strong brand identity, experience, best geographic location or access to the best raw materials etc. (Porter, 2008, p.11)

**Unequal access to distribution channels**, when a new entrant plans to enter a new market, distribution channels for its product or service is important. The more limited distribution channels are and the more established companies have tied them up, the higher the barriers to enter will be. (Porter, 2008, p.11)

**Restrictive government policy**, government policy can prevent or support new entry. That means that they can add or remove barriers to entry (Porter, 2008, p.12). The government can reduce or even foreclose entry into industries; this can be done through licensing or foreign direct investments regulations. Barriers to entry can also be higher through expensive patent rules or safety rules. This increases the scale of economies. (Porter, 2008, p.12) The government can also make the barriers to entry easier through subsidies or make funding from basic research available to both new and old companies. This will reduce the scale of economies (Porter, 2008, p.12).

### 3.3.2 The power of suppliers

Powerful suppliers can charge higher prices, shift the costs for the buyers or limiting services or quality. Powerful suppliers can also squeeze profitability out of an industry if the company cannot pass the higher cost in its own prices. (Porter, 2008, p.13) Products that are being supplied are differentiated, if the products which are supplied have no substitute, if the suppliers do not depend on their customer for its revenues, or if the supplier has the possibility to integrate forward into the industry (Porter, 2008 p.14). Labor must also be considered as an important supplier (Porter, 2008, p.13).

### 3.3.3 The power of buyers

Powerful buyers can force down prices, require better quality or more service and choose between suppliers. The buyers are powerful if they have negotiating power to the industry or if they are price sensitive, using their power to pressure down price. (Porter, 2008, p.14) A buyer has negotiating power if there are few buyers or if the buyer purchases a large proportion. If the products are undifferentiated or standardized and has few switching costs. If the buyer get the possibility to do a backward integration and produce the products themselves, their power increase. A buyer is price sensitive if the product represents an important part of the buyer’s budget. The buyer will definitely compare suppliers and bargain hard. If the buyer needs to lower their costs because they are earning low profits or if they in some way are under pressure to lower their purchasing costs. (ibid, p.15)

### 3.3.4 The threat of substitutes

Competition comes not just from within the industry it also comes from products which perform the same function outside the industry. Video-conferencing may be a substitute for business travel.
Industries profitability will suffer if the threat from substitutes is high. (Porter, 2008, p.17) The threat of a substitute is high if the substitute offers a better price range than the industry's product. If the cost of switching to the substitute is low the threat from substitute will be high (ibid, p.17).

3.3.5 RIVALRY AMONG EXISTING COMPETITORS
Rivalry among existing competitors is everything from new product introductions, price discounting, advertising campaigns and improved service etc. If there is high rivalry the profitability will be limited. An industries profit potential depends on the intensity among the competitors and also on the basis on which they compete. (Porter, 2008, p.18) The basis of competition has a major influence on profitability. Price competition is most likely to occur if there is lack of differentiation between products or services and there are few switching costs for buyers. Firms cut their prices below average cost to steal individual customers, this is created if the fixed costs are high and marginal costs are low. Excess capacity and pressure to raise sales often leads to price cutting. (ibid, p.19)

Other competition dimensions than price can be product features, support services, brand image, or delivery time etc. This improves customer value and can support higher prices, so it is less likely to erode profitability. (Porter, 2008, p.20)
4. EMPIRICAL FINDINGS

In this chapter we will present the empirical findings from both the primary and secondary research.

4.1 PEST

In following part we will present the empirical findings about India’s business environment.

4.1.1 POLITICAL/LEGAL

India is a democracy based on constitutionally guaranteed civil rights and freedoms such as an independent judiciary and a diverse and active free press. Under the constitution India is secular republic even though religion plays an important role both in daily life and in the political debate. India is a federation consisting of 28 states. In addition, there are seven Union Territories. Provincial governors are appointed by the president, whom is elected for five year periods, while the Chief Minister is elected by the regional parliament. The Union Territories are governed by one governor, appointed by the president. From the many excising political parties, only Congress and Bharatiya Janata Party are considered to be national parties. The strong regional influences have made it difficult to pursue policies at a national level. The influence of the regional parties has led to that the provinces have more freedom. This makes provinces with strong economy and good management richer and stronger meanwhile the poor provinces are getting poorer. (swedenabroad.com, 2009, Om Indien)

In the Indian elections 2009 the Congress became the most popular party. The ideology of the Congress can be described as Indian nationalism/social liberalism and secularism (wikipedia.com, Indian National Congress). Together with a coalition of allies called United Progressive Alliance (UPA) the Congress party was able to gain majority and form the government. The coalition government gives priority to agriculture, water, education, health, employment, urban renewal and infrastructure. (swedenabroad.com, 2009, Om Indien)

1991 the Indian government launched a comprehensive economic reform program which is still in progress. The reforms aim at opening up the previously closed and protected Indian economy and increase opportunities for private investment and entrepreneurship. The reform policy has created stability and indicated the direction for India’s economic development. The main features of the reforms enjoy strong support across the political boundary blocks, which contributed to long-term stability and continuity. (swedenabroad.com, 2009, Om Indien)

India plays an active role in multilateral trade negotiations under the World Trade Organization (WTO). India sees itself primarily as an advocate for poor countries interests and for pushing the EU an U.S to open their markets and eliminate their subsidies to agriculture. (swedenabroad.com, 2009, Om Indien)

India’s foreign trade has risen significantly from the year 2000 but globally India is still a small player with only 1.5 percent of the total world trade. For the sake of comparison it may be mentioned that China’s share of the world trade is 8.7 percent and Sweden's 1.2 percent. India has a deficit in the balance of trade and the main reason for that is the dependence of oil from abroad which counts for almost 30 percent of the merchandise imports. Trade in services has risen sharply in recent years and today the
Indian service exports counts for nearly 40 percent of the country’s total exports. (swedenabroad.com, 2009, Om Indien)

Sweden’s relations with India has often been characterized by friendship and partnership. The economic growth and the various reforms of the economy have made India an increasingly important market for Swedish companies. Because of this, the relation with India has been given higher priorities to increase sustainable contacts in a wide range of areas. Trade between Sweden and India has increased markedly over the past years. In 2008 the Swedish export to India increased with 18 percent while the Indian exports to Sweden increased by 20 percent. More and more companies discover India and its opportunities. According to a recent survey made by the embassy of Sweden 95 percent of the Swedish companies in India consider the business environment as favorable and 96 percent of them believe that they will expand their activities in India over the next three years. (swedenabroad.com, 2009, Om Indien)

Companies situated in India are taxed by their worldwide income from all sources according to the provisions of Income Tax Act. A company is considered to be situated in India if it is controlled and managed entirely from India. Foreign companies are essentially taxed by the income made from business made in India or from other Indian sources. (Indiambassy.com, 2009, Fiscal taxation system) The tax system in India is of a progressive kind, the more money you earn the more tax you pay. A limited foreign company in India has a basic tax rate of 40 percent and in addition a 2.5 percent surcharge for incomes above 10 million INR, approximate US$ 222 100, as well as an education tax of three percent. The top effective tax rate in India for a foreign company is 42.23 percent compared to 33.99 for a domestic company. (worldwide-tax.com, India income taxes and tax laws)

India’s regulations towards Foreign Direct Investments (FDI) are getting more liberalized every year as part of the long term plan of deregulation of the economy. Before 1991 when the reforms started it was almost impossible for a foreigner to run his business in India. Over the years, FDI inflow in India is increasing. However India has great potential to increase the inflow even more in the coming years. (dipp.nic.in, Manual p 1) Today FDI is an important driver of growth in the country and the government is therefore making all efforts to attract foreign investment in the country (dipp.nic.in, Manual p 7). FDI is freely allowed in almost every sector including the manufacture sector. Exceptions are retail trading (except single brand product retailing), atomic energy, plantations, lottery, gambling and betting or any sector that is not opened to the private sector investment. Exceptions are also made in sectors were industry license is required. (investmentcommission.in, FDI policy)

Government of India provides for setting up Special Economic Zones in India for the purpose of having internationally competitive hassle free environment for exports. Factories may be set up in SEZ for manufacturing goods and rendering services but domestic sales by the companies in the SEZ shall be a subject of full custom duty and import policy inflows. SEZs companies may import from domestic sources duty free and all their requirements of capital goods, raw materials, office equipment etc, for setting up of factories or further operations without any license or specific approval. The SEZs have a lot of benefits for example 100 percent income tax exemption for the first five years and 50 percent exemption for the following two. (indanembassy.org, Special economic zones)
100 percent FDI is allowed in setting up a SEZ and a SEZ can be set up in public, private, joint sector or by State governments. 100 percent FDI is allowed in manufacturing sector inside the SEZ even for small scale units except for sectors requiring industrial license. (indanembassy.org, Special economic zones)

A major part of the Swedish companies exporting to India report that the high tariffs make it difficult to be competitive against domestic competitors. The duty for the majority of product categories is ten percent but different fees often raise the actual duty to somewhere between 30-40 percent. (swedenabroad.com, Utmaningar i Indien) Figure 4 shows the duty for Hs code 87082900 which is labored as other (in which cargo tray is included) in the category: Vehicles other than railway or tramway rolling stock and parts and accessories thereof.

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<th>Unit</th>
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<th>Spl. CVD (%)</th>
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<th>RSP</th>
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<td>3</td>
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</table>

Figure 4: Import Duty, (newdutytax.info, Duty tax information, 2010).

4.1.2 ECONOMICAL

In 2008 India was the world’s fourth largest country in terms of GDP, US$ 2.816 billion (indexmundi.com, GDP). The largest industries of Indian in terms of contribution to GDP are agriculture sector 54 percent, industry 28 percent and service 18 percent. The main export products in India are engineering products, gems and jewelry, textiles, agricultural products and chemicals. The main import products are oil, machinery, edible oil, iron, steel, fertilizers, chemicals and gold. (chinindia.se, India)

India’s GDP per capita (PPP) is US$ 2 500 and that leave India on 166th place on the worldwide ranking, side by side with countries like Vietnam and Pakistan (indexmundi.com, GDP-per capita).

![Real GDP growth rate: India vs. World](image)

Figure 5: GDP, (acmainfo.com, GDP).
Over the past five years, the Indian salaries in average increased by 11.5 percent but compared to Swedish standards they are still very low. For example, a software engineer in Sweden earns on average US$ 53 600, compared to US$ 10 100 in India, an accountant earns on average US$ 56 100 in Sweden compared to US$ 5 600 SEK in India. (kinaochindien.se, Indien: Outsourcing)

India has 1.16 billion inhabitants and that makes India the second largest country in the world in terms of population (indexmundi.com, Population). With massive population comes a huge labor force of over 500 million people, only China has more (indexmundi.com, Labor force). India’s middle class has rapidly increased and is expected to be around 250 million people, and it’s estimated that about one percent of the poor manage to cross the poverty line each year. Despite the success of the middleclass in India it is estimated that two-thirds of the Indians living on less than two dollars per day. Almost a quarter of the world’s poorest people live in India. (Sida.se, Utveckling i Indien)

On March 30th, 2010 India’s inflation, was 9.90 percent (theglobeandmail.com, India struggles under rampant food inflation), and in May 2010 the exchange rate was Rs. 44.56 to US$ 1 (rbi.org, current rates).

![Indian Rupee (INR) Currency Exchange Rate - 10 Year Chart](image)

Figure 6: Currency Exchange Rate, (forecast-chart.com, Currency).

The high inflation has led to that the central bank has raised the policy rate in India which has made it more expensive for individuals to borrow money (privataffarer.se, Indisk ränta sänkte börs). The public debt in India is low in comparison to the whole world but at the same time India have the fourth biggest debt in Asia, 58.8 percent of GDP compared to Sweden’s 41.9. The future of Indian economics looks much brighter today then one year ago. The economy is expected to grow at 8.5 percent this year starting in April. This means that India have made a rapid recovery from the financial crisis that have surprised many experts. The key reason for India not getting hit so hard by the crisis is that exports only account for 20 percent of India’s GDP, a small percentage compared to many other Asian countries. The domestic demand has remained strong and to simulate the economy, the government has focused on
job programs in rural areas and major infrastructure projects. (e24.se, Indiens medvind slår hårt mot hushållen)

Most of the infrastructure services in India was until year 2000 provided by public monopolies and quasi monopolies. Those monopolies were facing huge problems regarding low productivity, lack of accountability, poor financial performances and over-employment. (Ashwatappa, 2009, p.326) To meet the challenges with rapid economic growth and peoples immigrations to the urban areas it is urgent to achieve greater efficiency and accountability and to do that the government allowed 100 percent FDI equity in infrastructure projects, ports, roads and highways. (ibid, p.72)

It is estimated that around three quarters of the increase in infrastructure investments outside the more current projects needs to be financed by private money (epochtimes.com, Bristande infrastruktur hämmar Indien). However, how to develop and to modernize India’s infrastructure system is one of the most important factors for India to consider in the future. The Indian government plans to spend US$ 1000 billion in the Indian infrastructure between 2012 and 2017. This is 33 times more than what the Swedish government planned for the same period. (swedenabroad.com, Infrastruktur Indien) This implies that India is taking heavy measures to build up a sustainable infrastructure but it also implies that the infrastructure today is very poor and limits the possibilities of growth.

The lack of good roads, electricity and water in many Indian regions prevents companies from building new offices, form investors to build shopping malls and hotels, as well as citizens from buying new houses. It is estimated that around three quarters of the increase in infrastructure investments outside the more current projects needs to be financed by private money. If the infrastructure issues could be resolved the growth would accelerate, if it is not solved the growth eventually reaches a point where it will decelerate. (epochtimes.com, Bristande infrastruktur hämmar Indien)

4.1.3 Sociocultural

When talking about culture in India it is important to remember that India is among the most diverse societies in the world (Mahajan, p.111). 72 percent of India’s population lives in rural areas and 28 percent lives in urban areas (family.jrank.org, Cast system).

India has people from most of the major religions in the world, Hindus, Muslims, Buddhists, Sikhs, Christians, Jains and Zoroastrians. 82 percent of India’s population is Hindus but there are also almost 150 million Muslims in the country which contributes to the second largest population of Muslims in the world. With religious diversity comes linguistic diversity. 1991 were 114 languages spoken by 10.000 people or more. Of the 114 languages were 22 spoken by more than one million. Today Hindi and English together with 18 other languages are the official languages. The government only uses English in all cases of administration even though only ten percent of the population speaks English. (Mahajan, p.114)

With a huge population it is important with peace and understanding between the religions (cia.gov, India). To facilitate this India have no official or established state religion. India’s constitution protects religious liberty and gives all religious communities the right to profess, propagate and practice their religion. (Mahajan, p.112) Knowing this it becomes clear that Indians identify themselves with a certain religions but also with specific geographical or state in India. Religion specifies and guides their day to-
day behavior while the region they live in generally identifies their language, literature, art, music, food and clothes. (family.jrank.org, Cast system)

India is not just a religious diverse country it is also a young nation, 30.5 percent is between 0-14 years (indexmundi.com, India age structure). Only five percent of the population is over the age of 65 (kpmg.fi, Consumer markets in India p.10).

![Figure 7: Population age, (kpmg.fi, Consumer markets in India p.10).](image)

But at the same time it is important to know that the average life expectancy in India at birth is only around 70 years and that put India on 143th place worldwide (indexmundi.com, Life expectancy).

India had 48.7 million graduates in 2004 which is more than 100 percent increase from 1991 when the number was 20.5 million (rediff.com, graduates in India). India graduates, for example, more engineers than any other country in the world, each year about 1 million (avanza.se, Indien). Although many are educated in India only 61 percent of India’s population can read and write and that places India on 168th place worldwide regarding literacy in nations (indexmundi.com, literacy).

Of India’s labor force 52 percent is working in the agricultural sector, 14 percent in the industry sector and 34 percent in the service sector. It is notable that the agriculture sector only contributes to 17.5 percent of India’s GDP. (cia.gov, agriculture)

The Indian, Hindu family system is like most other less industrialized, traditional eastern countries based on collectivism which implies family integrity, loyalty and unity. Historically the preferred family systems are the joint family. A joint family often consists of four generations and includes uncles, aunts, nieces, nephews and grandparents. This results in that family affecting most aspects of life including career choice, mate selection and marriage. Indian families adhere to the patriarchal ideology and endorse
traditional gender roll preferences. Male children are raised to be assertive, less tolerant, independent, self-reliant, demanding and domineering females on the other hand are raised to be self-sacrificing, docile, accommodating, nurturing, altruistic, adaptive, tolerant, religious and to value family above all. (family.jrank.org, family life)

When looking at the crime rates in India It is important to remember that India have the second largest population in the world. India have about 1.63 crimes per thousand people and place itself on 59th place worldwide compared with Finland who is third with 101.5 per thousand people. (nationmaster.com, Crime statistics)

However, India is the country in the world where most murders takes place every year. 2007-2008 almost 33 000 incidents of murder were reported in India compared to about 9 500 in USA. (timesofindia.indiatimes.com, India tops) The risk analysis firm, Mapelcroft recently published a list of countries where it is most likely that a terrorist attack will take place. Nine countries are classified as extreme risk nations and India is placed sixth on the list next before nations as Algeria and Colombia, the list is topped by Iraq. (aftonbladet.se, Thailand ett av de farligaste)

Corruption is a big issue in India and there are major flaws in the rule of law regarding this problem. On Transparency Internationals list over corrupted countries is India on 85th place of 180 countries. Poor people and minority groups with less political and social status have because of these limited opportunities to run legal cases in court. (regeringen.se, Indien, p.9) As a result from this many Indians believe that politicians are corrupt, ineffective or have criminal links (Tripathi, 2009).

Several measures have been made by the Indian equivalent to FBI called Central Bureau of Investigation to stop the corruption in India. Lately dozens of bank managers, bureaucrats, engineers and contractors have been arrested on the suspicion of crimes including accepting bribes and forging documents. The agency have included the citizens of India in their anti corruption crusade. By making a countrywide campaign where people can use their cell phones to send messages to the agency about suspicions of corruption, the agency hopes to get led’s that will help them in their case against corruption. (nytimes.com, In India)

4.1.4 TECHNOLOGICAL
When India entered the modern world, after the British rule, it was in a state of economic backwardness and poverty of a large section of its people. It was then obvious that technology must be focused on basic need such as clothes, food, health and housing. But at the same the latest technology in the industrial sector was necessary to catch up with the developed countries. (Ashwathappa, 2009 p.123)

More than 400 million people do not have electricity in India. India’s power shortage is a barrier to the country’s development. For example, 2008, 60 percent of the Industrial consumers had to make their own arrangements for securing a reliable power supply. In 2009 some 80 percent of the electricity supplied to Indian homes and factories came from coal-fired generation plant and one-third of those were old, inefficient and spread harmful gases into the atmosphere. In 2009 The World Bank approved a US$ 180 million loan to the government of India, designed to renovate and modernize the coal plants. The project is also supported by the Global Environment Facility whom granted US$ 45.4 million dollar
and the aim of the project is to lower carbon emissions and boost power production. This is the first step in a decade-long plan that the Government of India have made to increase the power supply by modernize a range of old coal-fired plants and move the country to more climate-friendly options for energy generation. (thegef.org, 2009)

India has one of the world’s fastest growing telecom industries. The mobile sector has grown more than tenfold since 2001 but the usage of internet is still limited, only 7 percent of India’s population has access to internet compared to Sweden 89.2 percent. (internetworldstats.com, Internet users) This affects the way companies can reach their customer through marketing, they way people pay their bills and also the way people and companies buy and sell goods and services.

India is well aware of their need of R&D and several measures have been made since the liberalization started. Government of India have established space research centers, medical research centers, agricultural research centers, power development projects, industrial research etc. Besides that several universities have been set up provide higher education in science, technology and management. The Government have also established a series of research establishments and granted recognition to in-house R&D centers run by private industries and for this purpose many monetary and fiscal sops has been offered. (Aswatappa, 2009, p.123)

The development of the Indian industrial sector has not been a smooth one and today its industry-efficiency is far behind their neighbor China. Before 1991 the Indian industries were protected through various restrictive laws and regulations from the competition of modern technology-based industries. But they were also inhibited by the government to compete globally. With rigid laws Indian firms were stopped from attaining efficient size. Both these factors inhibited the Indian market from developing. (Bhandari, et al 2007, p. 71)

When India opened up the market in the early 90s the problems of the underdeveloped industries came to light. Fortunately, policy makers have realized the shortcomings of earlier strategies and the urgency for Indian industries to become efficient so they can withstand the pressure of foreign competition. Improved performance of the industrial firms is now being called for and efficiency of a factory is now supposed to be a prerequisite for growth or even mere survival. Over the years several measures have been taken by the government to help domestic industries achieve efficiency. These include for example financial measures and liberalization of tax laws and rates. (Bhandari, et al 2007, p.74)

4.2 The Automobile Industry

In this part we will present the empirical findings about the Indian automobile industry.

4.2.1 Market Size & Growth Rate

The automobile sector is a significant player in the Indian economy and contributes 5 percent of the nation’s GDP. The Indian market has over the past few years attracted global automakers. This is mostly because of the growing middle class and the growth of the economy in India. Except from this, India also provides trained manpower at competitive costs and this makes India to an attractive global manufacturing hub. (Cygnus, Indian automobile industry, 2009, p.4)
The Indian automobile market is working hard reaching international standards to meet the needs of the global automobile giants and become a global car hub. The automobile sector is today one of the key sectors when it comes to employment. It employs more than 10 million people excluded the auto component and auto ancillary industry. (Cygnus, Indian automobile industry, 2009, p.4)

The Indian automotive industry is dominated by two-wheelers, but as shown in figure 8 the two-wheelers are slowly losing market share while the passenger car segment is growing.

India is now the 11th largest market in the passenger cars segment, and is expected to be the 7th largest market in the world by 2016 (Datta, 2010, p.131). Despite the global downturn and the fact that automobile industry was deep in recession worldwide in 2008–2009 the Indian automobile industry was slowed down but continued to show a positive growth of 3.4 percent of the production in 2008-09. The demand for India's small cars drives the growth in the export market. (Tinwala, 2010 p.26) The growth in the domestic market is largely driven by the country’s large middle class with growing disposable incomes (economictimes.indiatimes.com, Indian auto industry, 2009). According to Ernst and Young the passenger car industry is predicted to grow at twelve percent annually over the next five years, from 1.89 million in 2008-09 to around 3.75 million units in 2014. (ibid, p.27)

The current FDI (Foreign Direct Investments) regulations make it profitable for multinationals to set up manufacturing industries in India. Apart from FDI regulations, low production costs contribute to the positive growth and attract huge investments. All this is bodes well for the Indian automobile industry. (Tinwala, 2010 p.26)

During 2009, the major automobile markets across the world witnessed a fall leading to an overall decline of 14 per cent (economictimes.indiatimes.com, Indian car exports, 2010). India’s automotive (passenger vehicles, commercial vehicles, three wheelers, two wheelers) industry reported a rise of 26.41 percent in fiscal year 2009-10, the industry recorded sales of 12.3 million units, highest ever. With a helping hand from government’s stimulus package, lower interest rates on auto loans and the
aggressive competitiveness to launch newer models have contributed to this growth and making it to the second fastest growing market in the world after China and one of the best years for the sector. (indiancarsbikes.in, Indian auto industry, 2010) In the period April-March, 2009-10, domestic car sales rose by 25.10 percent, to 1,526,787 units from 1,220,475 units in the earlier fiscal year. The president of SIAM (Society of Indian Automobile Manufacturers) Mr. Pawan Goenka said, “This year (FY’10) was one of the best years for growth. When we started the year, we did not expect such high growth, we are pleasantly surprised.” (hindustantimes.com, Auto industry posts positive growth, 2010) The domestic car sales in March 2010 was 155,600 cars compared to 129,585 the same period a year ago, which is a growth of 20.1 percent. (indiancarsbikes.in, Indian auto industry, 2010)

The fast growing automobile industry in India is set to slow down, relatively, and register a growth rate in the lower double-digits in fiscal year 2010-11, the primarily due to the high base effect of fiscal year 2009-10 (bankbazaar.com, Times are changing, 2010). SIAM (Society of Indian Automobile Manufacturers) has predicted a 10-14 percent growth in 2010-11. Mr. Pawan Goneka said, “Overall the industry is in good shape and most of us are positive about FY’11. We have some concerns and if no major surprises happen, we should have good growth of 10-14 per cent for the industry.” (news.oneindia.in, Auto industry grows, 2010) He also stated that in 2015-16 the industry is expected to be worth US$ 145 billion (indiancarsbikes.in, Indian auto industry, 2010).

Even second hand car market has increased during fiscal year 2009-10. Suzuki Maruti, General Motors and other second hand dealers have experienced a significant increase in their used car business, and they think that trend will continue (Cygnus, 2009, p.6). Industry experts believe that 51 percent of the second hand cars will be sold under the structured car market by fiscal year 2014. Car makers have realized the potential of second hand car market and making it mandatory for their wholesalers to operate with used car outlets also (automobiles.mapsofindia.com, Used cars). Some of the challenges that the automobile may encounter in the coming months is excise duty hike, commodity prices, rise in interest rates and rising prices of vehicles due to the new emission norms (news.oneindia.in, Auto industry grows, 2010).

As shown in figure 9 the automobile production have raised every fiscal year since 2003-04 to 2009-10. Over this period the production has grown over 137.5 percent, from 989,560 units in 2003-04 to 2,351,240 units in 2009-10. In 2008-09 Indian automobile production slowed down as an effect of the global financial crisis but still ended up with a positive growth and in fiscal year 2009-10 the growth was over 25 percent, which in turn increases the demand of auto components.

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Figure nr 9: Automobile Production Trends, (siamindia.com, automobile productions trends, 2010).
Figure 10 shows that the domestic sales have grown over 116 percent since fiscal 2003-04 from 902,096 units to 1,949,776 in fiscal 2009-10, and a slowdown in 2008-09 but still a positive growth.

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Figure 11 shows a positive export trend and the export have increased over 245 percent from 129,291 units in fiscal year 2003-04 to 446,146 units in fiscal year 2009-10. Compared to production and domestic sales that slowed down in 2008-09, export increased over 53 percent in 2008-09. The demand of small cars in the European market drove the increase in exports. Many of the European nations offered incentives to customers for buying new cars in exchange of their old cars.

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The fiscal year 2009-10 Indian car makers expanded the export from the country and registered a growth around 33 percent. According to New York Times, India has a strong engineering base and knowledge in the manufacturing of low cost, and fuel efficient cars. This has resulted in several automakers like, Hyundai Motors, Nissan, Toyota, Volkswagen and Suzuki have expanded their manufacturing facilities in India.

Figure 12, shows that Hyundai Motors and Maruti Suzuki are the largest exporters in fiscal 09. India is becoming more and more popular for foreign automakers, and Nissan Motors plan to export 250,000 units in 2011 manufactured in its India plant. General Motors plan to export 50,000 cars in 2011 manufactured in India. Ford motors stated in September 2009 that they plan to set up a plant with an annual capacity of 250,000 cars, manufactured both for the domestic market and export. (bankbazaar.com, Times are changing, 2010)
Indian Auto component Industry is a part of the Indian automobile industry and it is an emerging destination and the industry constitutes only around 0.4 percent of the global auto component industry and is expected to increase to around 1.5 percent by 2015 (Cygnus, Indian auto components, 2009, p.5). The industry is one of India’s fastest growing manufacturing sectors and between fiscal years 2004 and 2008 it had a compound annual growth rate of 27.8 percent but slowed down during the worst period of the financial crisis. This growth is largely due to enhanced capacities and higher capacity utilization. It is also, other than Thailand and China the only country where cheap labor and cheap raw material at a good quality are available, which is some of the major reasons for the rising investments by global players. This advantage have attracted international player to shift their focus into India where the demand from the global market is gradually increasing and the domestic automobile market is reinforced by the high increase in domestic demand. (ibid, p.6)

The turnover in 2008-09 was over US$ 19.1 billion and the industry’s is estimated to touch US$ 40 billion by 2015-16 (ibef.org, Auto components, 2010). The industry has about 592 organized players represented of the ACMA (Automotive Component Manufacturers Association of India) and around 6 000 unorganized players. Organized players are around 9.8 percent of the total number of industry players and the unorganized sector constitutes 90.2 percent of the industry. (Cygnus, Indian auto components, 2009, p.6) The organized sector supplies a variety of components to domestic and worldwide OEMs (Original Equipment Manufacturer) and aftermarkets (acmainfo.com, profile info). The unorganized sector supplies to the replacement market (Cygnus, Indian auto components, 2009, p.6).

Of the US$ 19.1 billion the export was around 20 percent and US$ 3.8 billion of the total output (acmainfo.com, profile info). Despite 2008-09 was the worst period for the Indian auto component industry facing the global slowdown in automotive sector it still showed positive numbers. The slowdown led to cancellation and postponing of orders because over 65 percent of the exports are from developed market such as US and Europe. However the industry is recovering and increasing exports have led to better quality and technical standards and the Indian manufacturers have the capability to meet stringent international standards (Cygnus, Indian auto components, 2009, p.7). Figure 13 shows the distribution of export.

![Figure 13: Continent-wise Export](image)

India is a net importer of auto components and the increase of imports continues (thaindian.com, higher auto components import, 2010). Automakers are expected to source as much as half of all the components from overseas Suppliers over the next 3-4 years which will affect the growth of the
domestic market. (economictimes.indiatimes.com, imports to hurt, 2010) In 2008-09 the import was around US$ 6.8 billion and 35 percent of the total turnover (acmainfo.com, industry statics, 2010).

By 2013-14 the import share is likely to be 50 percent, but this depends on the elimination of custom duties of auto components under Free Trade Agreement (FTA) signed by India with other countries. Based on current consumption levels the import of components could increase by 42 percent in 2013-14. (thaindian.com, higher auto components import, 2010)

The largest source of imports is from the European Union with 35-37 percent. From 2004-05 to 2008-09 South Korea’s share grew from 15.4 percent to 17 percent and China grew from 2 percent to 9 percent, while U.S. and Japan came down in the same period. (thaindian.com, higher auto components import, 2010)

4.2.2 MAJOR PLAYERS

The three largest players on the domestic market are Maruti Suzuki (Indian-Japanese joint-venture) Hyundai (South-Korean) and Tata Motors (Indian). In the utility (SUVs, MUVs) segment Mahindra & Mahindra (Indian) is the largest player, followed by Maruti Suzuki, Tata Motors and Tata Motors. As mentioned earlier Hyundai Motors and Maruti Suzuki are the largest exporters of passenger cars manufactured in India. (Datta, 2010, p.137)

Figure 14 shows the domestic sales by manufacturers in the passenger car segment in fiscal year 2008 and 2009 and figure 15 shows the domestic sales in utility vehicles in fiscal year 2008 and 2009.

![Figure 14: Market Share cars](Datta, 2010, p.137)

![Figure 15: Market Share UV's](Datta, 2010, p.137)
During fiscal year 2010 the market leader Maruti Suzuki was growing 20.23 percent at 765,526 units. Their rivals Hyundai Motor's showed a 19 percent growth and Tata Motors raised 25.54 percent (hindustantimes.com, Auto industry posts positive growth, 2010). Maruti Suzuki is one of the India's largest car makers, with the market share of 58 percent in the compact (A2) segment. (Cygnus, Indian automobile industry, 2009, p.21)

Figure 16 shows the market share in the compact (A2) car segment, the left figure shows the monthly share and the right figure shows the annual share since fiscal year 2002. Maruti Suzuki, Hyundai and Tata are the largest players in the compact car segment.

Figure 17 shows the market share in the mid-size (A3) car segment, the left figure shows the monthly share and the right figure shows the annual share since fiscal year 2002. In the mid-size car segment, except from Maruti Suzuki, Hyundai and Tata, there are players like Ford and Honda that are fighting for market share.

Figure 18 shows the market share among the utility vehicles segment, the left figure shows the monthly share and the right figure shows the annual share since fiscal year 2002. In this segment there are sport utility vehicles (SUVs) and multi utility vehicles (MUVs). For example, Mahindra & Mahindra’s Scorpio

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**Passenger Cars – A2 segment (monthly)**

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**Passenger Cars – Utility segment (monthly)**

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(SUV) Tata Motors Safari (SUV) Toyota’s Innova (MUV) Chevrolet’s (GM) Forester (SUV). In this segment the three largest players are Mahindra & Mahindra, Toyota and Tata Motors.

Figure 18: Segment UV’s, (Sector update, auto monthly, 2010, p.8).

Multinational cars made in India:

- BMW: 3 Series, 5 Series.
- Chevrolet: Spark, Beat, Aveo U-VA, Aveo, Optra magnu, Cruze, Taiera Neo 2, Captiva.
- Fiat: Palio, Grande Punto, Linea.
- Honda: Jazz, City, Civic, Accord.
- Hyundai: Santro, i10, Getz, i20, Accent, Verna, Sonata.
- Mercedes-Benz: C-Class, E-Class (assembled in India).
- Mitsubishi: Lancer, Cedia.
- Renault: Logan.
- Skoda: Fabia, Octavia, Laura.
- Toyota: Corolla, Innova, Fortuner.
- Volkswagen: Jetta, Passat, Polo.

Imported cars sold in India:

- Audi: A8, TT, R8, Q5, Q7.
- Bentley: Arnage, Continental GT, Continental Flying Spur, Arnage.
- BMW: 6 Series, 7 Series, X3, X5, X6, M3, M5, M6 and Z4.
- Chevrolet: Captiva.
- Fiat: 500.
- Honda: Civic Hybrid, CR-V.
- Hyundai: Tucson.
- Jaguar: XF, XK.
- Lamborghini: Gallardo, Murciélago.
- Land Rover: Range Rover, Range Rover Sport, Discovery 4, Freelander 2.
- Maybach: 57 and 62.
- Mercedes-Benz: CL-Class, CLS-Class, S-Class, SL-Class, SLK-Class, M-Class, Viano.
• Mitsubishi: Pajero, Montero, Outlander.
• Nissan: Teana, X-Trail.
• Porsche: 911, Boxter, Panamera, Cayman, Cayenne.
• Rolls Royce: Ghost, Phantom, Phantom Coupé, Phantom Drophead Coupé.
• Skoda: Superb.
• Suzuki: Grand Vitara.
• Toyota: Camry, Land Cruiser, Land Cruiser Prado.
• Volkswagen: Touareg, Beetle, Phaeton.
• Volvo: S80, XC90.

(business.mapsofindia.com, automobile industry in India)

4.2.3 FUTURE TRENDS

As the trend goes compact car segment will continue to grow. Global automakers have presented a lot of cheap compact cars. Volkswagen has launched their Polo and General Motors their Chevrolet Beat. Toyota and Honda have presented their new small car concepts to take up the fight in this segment. Maruti Suzuki has also showed a new small concept car. (Financial Express, race for the Indian market, 2010) At the Auto Expo in Delhi 2010 the trend except from small cars was a huge focus on green technology, hybrid and electrical cars (Economic Times, editorial-India as small car hub, 2010).

Automakers such as Honda and Toyota are making small cars specifically targeted at the Indian market. India's demand for small cars may be a function of limited budgets but small cars are likely to be the World’s choice also, because of rising oil prices, awareness of climate change and a individual choice to minimizing carbon emission. (Economic Times, editorial-India as small car hub, 2010)

As the demand for compact cars to India’s middleclass are growing, global automakers head into India to tap the growing car market. The industry has turned into one of the world’s fastest growing and selling inexpensive compact cars is a way to make up for slumping sales in Western countries. India is still far behind China but automakers say there is a great potential to be tapped in India because of the growing economy and the fact that there are 12 cars per 1.000 people. (voanews.com, global automakers, 2010)

The focus is on small inexpensive cars, which account for four out of five sold cars. The Indian local manufacturers can get out cars which are very cheap and robust, so auto majors have to be very cost competitive to survive in the compact car market. In India price matters and the compact cars cost around US$ 8.000 to US$ 10.000. (voanews.com, global automakers, 2010)

Some global players are expanding their existing production facilities and some are entering the market, both to produce in India for the domestic market and to export. Hyundai already has a second car plant. Nissan Renault is setting up a huge car plant, and Volkswagen has just set up a car plant. (voanews.com, global automakers, 2010)

To sell small cars in India they have to be frugal in fuel consumption and still deliver on performance. That is what Indian people want, cars built for India, In India. The possibility to produce quality cars in India is no longer a question and some of the automakers export small cars to the world market, especially Suzuki and Hyundai. But to achieve scale is yet to be fully demonstrated and this is where
auto components come in which still is a small- to medium enterprise activity. Auto component industry in India is no longer a low-tech business and there is a large scope for auto components in Indian based productions of cars. (Economic Times, editorial-India as small car hub, 2010)

In India the auto sector engineering costs are considerably lower than in many parts of North America and Europe, often up to 40- or 50 percent. India’s workforce has a wide availability of high skilled and talented workers. It is no longer just a low-cost manufacturing location the fact is that India has also emerged as one of the key destinations for R&D and design. (AWKnowledge, foreign OEM, R&D, 2009)

Figure 19 shows the share of each car segment annually from fiscal year 2001-02 to 8 months of fiscal year 2010. The share of compact (A2) cars has grown substantially over the years. The small hatchback cars are dominating the market.

![Figure 19: Car Segmentation, (ICRA, Indian passenger vehicles industry, 2010, p.3).](image)

Figure 20 shows the domestic sales growth of each car segment in fiscal year 2009. The mini (A1) segment was worst hit by the financial slowdown. The compact (A2) and mid-size (A3) segment performed relatively good and for instance the third generation of Honda City, Toyota Corolla, Tata Indica, Hyundai i20 and Muruti Suzuki A-star and Dzire was launched. The Premium (A5) segment were least affected of the financial slowdown. In this segment new launches played a major role, for example the new Accord that was launched by Honda resulted in doubling of sales in June. (Datta, 2010, p.136)

![Figure 20: Car Segment Sales Growth, (Datta, 2010, p.136).](image)

The main trend is that people are migrating from motorcycle to passenger car and their first car will more likely be a small car, rather than a larger car. It is the affordability that shapes the Indian passenger
car market (fadaweb.com, India a global, 2008). Figure 21 shows the affordability in the different car segments.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Households which can afford a particular car-segment</th>
<th>2005</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment A1 &amp; A2 (Mini &amp; compact)</td>
<td>6.25 - 12.5</td>
<td>25.06 per cent</td>
<td>48.46 per cent</td>
</tr>
<tr>
<td>Segment A3 &amp; A4 (Mid Size &amp; Executive)</td>
<td>12.5 - 30.0</td>
<td>9.9 per cent</td>
<td>14.59 per cent</td>
</tr>
<tr>
<td>Segment A5 &amp; A6 (Premier &amp; Luxury)</td>
<td>Over 30.0</td>
<td>2.43 per cent</td>
<td>4.8 per cent</td>
</tr>
</tbody>
</table>

Figure 21: Auto Affordability, (fadaweb.com, India a global, 2008).

In fiscal year 2009 the bestselling car models in the Indian market was Maruti Suzuki’s Alto, WagonR, Tata Motors Indica, Maruti Suzuki’s Swift and Hyundai’s i10. These cars together sold more 670 000 units. The worst performers were Fiat 500, Hyundai Sonata, Ford Fusion and Skoda Fabia. (economictimes.indiatimes.com, India’s best)

Alto was sold in 212 568 units (economictimes.indiatimes.com, Alto). WagonR was sold in 134 768 units (economictimes.indiatimes.com, WagonR). Indica was sold in 111 256 units (economictimes.indiatimes.com, Indica). Swift was sold in 110 071 units (economictimes.indiatimes.com, Swift). i10 was sold in 106 095 units (economictimes.indiatimes.com, i10).

Vaibhav at Chevrolets showrooms said that their most sold cars right now are the compact (A2) Beat and the executive (A4) Cruze. Yash at Mercedes-Benz showroom said that their most sold car right now are the C-class. Pankaj Adrekar at Tata Motors and Fias said that their most sold Tata right now are the mid-size (A3) Indigo Manza and the compact (A2) Indica Vista. Fias most sold car right now are the executive (A4) Linnea. Nayan at Hyundai’s showrooms said that their most sold car right now are the compact (A2) i10 and the mid-size (A3) i20. All these persons confirmed that it is the compact (A2) and the mid-size (A3) car segment that will continue to be the most popular.

4.2.4 DISTRIBUTION

The two most common ways in distribute channels in the Indian auto sector are indirect- or direct distribution. Indirect distribution can for example be from manufacturer to wholesaler to retailer and finally to consumer. Direct distribution means that no intermediaries are used. For example, manufacturers sell to consumer by its own retail outlet. Manufacturer sells through direct mail, catalogs or over the Internet. (indiastudychannel.com, the distribution channels)

Mahindra & Mahindra are using both channels. They move their vehicles to distribution centers through India and they do direct delivery to their dealerships and institutional buyers. (fvlmagazine.com, regional report)

Skoda for example wants to sell their Fabia online and not through its dealership. The move is aimed to lower the cost and make the car more affordable to the customer. Online sales of the Fabia will allow Skoda to neutralize other related cost such as commission to the dealer, which is usually 5 percent of the price of the vehicle. This is not a unique move in India. Tata Motors retailed the Nano on the Internet,
but in this case it was to avoid crowds at Tata Motors dealers when it was launched. (Business Standard, the Strategist, 2009)

Sector experts do not believe in Skoda’s optimism. Indian buyer are very particular about extracting maximum benefits from every purchase they make, which only can happened through physical verification (Business Standard, the Strategist, 2009).

4.3 PORTER’S FIVE FORCES

In this part we will present the empirical findings about the cargo tray industry.

4.3.1 THREATS OF NEW ENTRANTS

Economies of scale make the Indian cargo tray industry to a industry where manufacturers have to produce at a large volume to get lower costs. This forces new entrants to produce in a large volume and use efficient technology or to accept cost disadvantage to win market share. To produce in large scale new entrants needs a modern factory with modern technology and modern machinery which require a relatively large investment and to set up a factory in India is also a large investment when the land is very expensive to buy.

In India the automakers are not interested in buying cargo trays and sell it as a part of their cars, this is to keep their prices competitive said Gurdeep from Senior Rubber. It is the car dealers/showrooms and the authorized workshops that are usually buying cargo trays with their own (automakers) logo from the same manufacturer or distributor. They are often interested in a set with floor mats for front- and back box together with the cargo tray to cheapest available quality, Gurdeep from Senior Rubber said. Zareer from Mahindra said that the cargo tray either come as one piece or is a part of the flooring set for the entire car. Vaibhav from Chevrolet, Nayan from Hyundai and Pankaj from Tata and Fiat said that the cargo tray and floor mats are offered as a complimentary with new cars. If the customer is a good bargainer he may get the floor mats and the cargo tray included in the price or else he have to pay extra. If the customer already have a car and wants an original manufactured cargo tray he will find it at the authorized workshops and in some showrooms. This means that new entrants may need to be able offer the whole set of flooring mats, but it is not in every case they are delivered as a set.

Nayan from Hyundai’s showroom said that their cars are delivered without cargo trays and they have to order them from MOBIS India which is Hyundai’s logistic center of service parts and genuine accessories. Vaibhav from Chevrolet said the same and they order their Cargo trays from Autocop India which deliver GM’s genuine accessories. Pankaj from Tata and Fiat said that they have their own manufacturer that makes their mats and cargo tray under their own brand. This can make it difficult for newcomers to get customers when established company’s already have tied them up.

The unorganized auto component shops that sell non-branded products are often small shops. They sell mostly universal cargo trays and in some cases they sell cargo trays fitted for a specific car model. They buy from different manufacturers and try to get as low price as possible. New entrants must be price competitive to reach this segment.
The incumbents have great experience of the Indian culture and the many different religions that foreign companies may lack, and the Indian culture is different in many ways from the European for instance in Europe quality is more important than in India where low price is the most preferable factor. Nayan from Hyundai said that the main thing is to get the products at a low price.

India’s regulations and government policy is something foreign companies must be aware of. There are a lot of regulations and bureaucracy, but however India is now much easier to do business in than before 1991. (dipp.nic.in, Manual p 1) In the auto component manufacturing sector 100 percent foreign direct investments are allowed. Foreign companies must pay tax rate of 40 percent and addition a 2.5 percent surcharge from incomes above 10 millions INR, approximate US$ 222 100. While domestic companies only have to pay 33.99 percent (worldwide-tax.com, India income taxes and tax laws). The custom duty for import to India is between 30-40 percent. (swedenabroad.com, Utmaningar i Indien) This can make it hard to compete with the Indian companies at competitive prices. Other rules are applied in the SEZ (for more detailed information see chapter 4.1)

4.3.2 The Power of Suppliers

When it comes to suppliers the cargo tray industry have two kinds of important suppliers, it is raw material and labor force. Parman from Hans Rubber Industry said that they are using only raw material from local Indian sources. In India the most common raw material in the cargo trays is rubber, PVC (Poly Vinyl Chloride), EVA (Ethylene Vinyl Acetate) and nylon or polyester for the “soft” carpet. Sadaquat from VIP Auto industries said that some companies also are using PP (Polypropylene) as a raw material. These raw materials are used in other sectors and products like tires, shoe, building and construction etc. so the supplier is generally not dependent on the cargo tray industry, except from the big ones that order a huge amount of raw material. These raw materials are not differentiated products so the suppliers have to compete on quality and price, and India is also known for cheap raw material at a good quality (Cygnus, Indian auto components, p.6). As mentioned above, cargo trays are made in different materials so the cargo tray industry does not depend on only one raw material.

Sadaquat at VIP Auto Industries said that the biggest suppliers of raw material in India are ONCG India, Reliance Industries and Haldia Petrochemicals. Reliance holds about 40 percent of the market share in the PVC segment (reli.com, PVC). They have also 70 percent market share in the PP (Polypropylene) segment which is more eco-friendly material (ril.com, PP). Shahdat also said when they buy larger quantities there is some kind of reduction in price as economies of scale.

Labor must also be considered as a supplier and India have a huge population which gives them a huge work force (Mahajan, p.112). The automobile sector is today one of the key sectors when it comes to employment and employs over 10 million people (Cygnus, Indian automobile industry, 2009, p.4). This makes the labor cheap and gives them a low power in relation to the manufacturer (ibid, p.6).

4.3.3 The Power of Buyers

In India the main customers to the cargo tray manufacturers are auto component distributors, automakers/their distribution centers as well as shops. The most powerful buyer in the industry are few but large. They buy large volumes and can in that way pressure the prices and demand better quality.
The big players are all the automakers or their distribution centers like MOBIS India for Hyundai and Autocop for GM. They have often tied up their manufacturer that produces mats and cargo trays with their own logo and the cargo trays and mats are made in India said Nayan from Hyundai and Vaibhav from Chevrolet. Sadaquat at VIP Auto Industries said that the power of the buyer may increase when the buyer buys larger quantities and there can be some kind of reduction.

Picture 3 is taken in the basement of one of Tata Motors showroom in Mumbai. It is a thin and unstable cargo tray made of rubber and is branded as Tata. The cargo trays are sold around US$ 14.50 - 44. Dependent on size and quality and they are often sold in set of mats for the entire car but can be sold separate.

Picture 4 is taken in one of Chevrolets showroom in Mumbai and shows the floor mat for the front box and has a small Chevrolet logo. Sandeep said that this is how the cargo tray looks but we do not have it available here right now. Chevrolet sells it from between US$ 13 – 44, dependent on size and quality.

Nayan at Hyundai showed us the cargo tray to their Hyundai Getz which had the Hyundai logo and was made of thick rubber. The price range for a cargo tray or the whole mating set is sold for US$ 11 – 66.50, dependent on size and quality. We were not allowed to take any pictures at Hyundai. Zareer from Mahindra said the same and they are selling the whole mat sets from US$ 11 – 66.50.

The small unorganized auto component shops that sell non-branded products are not as powerful as the large automakers or distributors. The buy smaller volumes but they still try to barging around to get the cheapest price. In India there are over 50 manufacturers said Nayan at Hyundai, so the small dealers will search among the manufacturers to get the best price offered on the market. This means that they have a little bit of bargaining power despite smaller volumes because they are price sensitive.

The small auto component shops sell most universal rubber and PVC cargo trays and mats. Some of them sell fitted cargo trays and mats for some specific car models but it is almost every time sold with the whole flooring set. Some do not sell the cargo tray at all, only the floor mats for the front- and rear box. Ankush at Laxmi was selling rubber sheets that they buy direct from the rubber supplier and with this
rubber sheet they can cut it at the boot space actual size, so it can be seen as a kind of backward integration that makes the dealers less dependent on the cargo tray- and mat manufacturers. Rohit at Laxman said the no one of the small auto component shops are interested in selling original equipment cargo trays or floor mats, it is too expensive. Sonu from Ujwal Car Point said that the products that the different manufacturers are offering are very similar to each other so they can just choose between manufacturers and buy at the cheapest price they can get.

Picture 5 and 6 are taken at Ujwal Car Point shop and shows a thin rubber trunk tray fitted for Toyota Innova. The cargo tray is sold in a complete set of mats for the entire car and the whole set are sold for US$ 19.

![Picture 5: Innova Cargo Tray. (own picture)](image1) ![Picture 6: Ujwal Car Point (own picture)](image2)

Picture 7 shows a street in Sion where there are 14 small auto components shops side by side. Picture 8 shows a 4 piece universal set of floor mats for front- and rear box of the car. These are made of rubber and looks kind of the same as the universal cargo trays.

![Picture 7: Auto Component Shops (own picture)](image3) ![Picture 8: Rubber Mat (own picture)](image4)

4.3.4 The Threat of Substitutes
We have chosen to define the cargo tray as a cargo tray independent on the material it is made of. We have not found any direct substitute to the cargo tray. What we found out from the garage research was that 22 out of 48 car owners had a cargo tray, of these 22 there was 10 original with the automakers logo
and 12 non-branded cargo trays. In 8 cases the cargo tray was included in the car sales and 14 had to pay extra or buy it as an aftermarket product. The majority of all cargo trays were flat mats without edges made of rubber.

The only thing we found that maybe can be seen as a substitute was that people who did not have a cargo tray thought they had one. They perceived the original trim cover that is often a soft fabric or hard plastic as a cargo tray, as seen in picture 9. It is taken at one of Tata Motors showrooms in Mumbai. The boot space is from a Tata Indigo sedan.

![Picture 9: Tata Indigo Boot Space (own picture)](image)

Yash at Mercedes-Benz said that they do not sell cargo trays and the car is not delivered with a cargo tray. Their cars are sold with the original trim cover, and he said that people would probably throw it out of the car if there was a cargo tray there.

4.3.5 RIVALRY AMONG EXISTING COMPETITORS

Nayan at Hyundai estimated that there are more than 50 manufacturers of cargo trays and car floorings mats. We have found around 38 companies on the Internet that makes cargo trays (dir.indiamart.com, Car mat), (alibaba.com, Car mat). Sadaquat at VIP Auto Industries said that there are a lot of small players in the industry and some big players. One of the major players is GMT India which is a part of GMT International. Nayan also said that the Indian market is competing with China and Thailand which also can produce at a low price.

Zareer at Mahindra said that there is a lack of differentiation and the cargo trays are looking the same. They are mostly made of rubber or PVC as flat, plain mats without edges. These are often molded to the size and designed to fit each car model or made as a universal mat, either are they very thin and unstable or quite thick and heavy. When there is lack of differentiation the manufacturers have to produce at competitive prices.
We have talked to three different manufacturers and Gurdeep at Senior Rubbers said that they are producing their cargo trays in rubber and the soft carpets in different fabrics. The rubber mats are die-molded after the design of each car, molded with semi automatic hydraulic presses and the mats are available in different colors. Param at Has Rubber and Sadaquat from VIP Auto Industry said that they are also using the molding technique. Sadaquat also said that there are companies in India that are using vacuum technique to form their mats and some are using PP (Polypropylene) as a raw material.
5. **ANALYSIS/DISCUSSION**

In this chapter we will present the analysis about India’s business environment its automobile- and cargo tray industry.

5.1 **INDIA**

India is the largest democracy in the world and it is a unique country in many ways. It is important to be aware of the cultural diversity in India since it has a huge influence in the business environment. To communicate in India English is widely used in the business- and political context. However, only 10 percent of the population speaks English. There are 20 official languages including English, and Hindi is the most used. The country is among the most diverse societies in the world and all the major religions can be found in India. Hinduism represents 82 percent of the population and there is also almost 150 Muslims in the country which contributes to the second largest population of Muslims in the world. The coexistence of different religions together with the linguistic diversity creates a complex society which is very different from the western world. India’s is a country where FDI are getting more liberalized every year since 1991, when the reforms started, and in the cargo tray industry 100 percent FDI are allowed but there is still different laws and regulations to be aware of. When a company plan to enter India this is important to take in consideration.

5.2 **AUTO INDUSTRY- & INDIA’S GROWTH**

From our findings we can see that the car industry is growing together with India’s population and GDP. We can see that those numbers will continue to increase over the next 5 years and that the growing middle class will have a stronger purchasing power.

Despite the global financial crisis that started in 2008 India’s automobile and auto component industry have showed a positive growth. One factor is the strong domestic market in India and another is the production and export of cheap cars that increased over 53 percent in 2008-09. Even though the increase of exports, India’s automobile industry counts only for 5 percent of the GDP and the total exports of products and services in India is only 20 percent of the GDP. Which is a small percentage compared to other Asian countries. This makes India less dependent on the global economic situation. However in the future the Indian exports is predicted to grow especially in the automobile- and auto component industry. This means that India will be more affected of the global economical situation in the future than they are now.

India has only 1.5 percent of the world trade compared to Chinas 8.7 percent. This makes India to a small player but the number has increased significantly over the last ten years. This is because of the Indian government economic reforms that have been made since 1991 and these reforms are still in progress. These reforms give advantages that attract international players to move in to the Indian market. The economic reforms are a precondition for foreign companies to enter the Indian market. Once a company is settled down in India there are a number of advantages. India has a labor force of over 500 million people which makes it easy and cheap to employ. India also graduates more engineers than any other country in the world and in 2004 India had a total of 48.7 million graduates. Although many are educated
in India only 61 percent of India’s population can read and write. The fact that so many people are educated at the same time as so many

The fact that many people neither can read or write fairly well reflects the image of India as country with high class distinctions. Even if India has 1.16 billion inhabitants companies must be aware that many people have low purchasing power and about one third of India’s population live below US$ 1 per day. For example, only 1.2 percent of India’s population owns a car.

To produce at a low cost, is crucial in the automobile- as well as in the auto component industry. Purchasing power per capita is US$ 2 500 and the Indian people demand low cost and fuel efficient cars. That’s why the compact (A2) segment cars are the most popular and contributes to 75 percent of the market. Because of the price sensitive buyers the automakers have to use cheap auto components to be as price competitive as possible. A result of this is that quality is often not taken in consideration, but this is likely to change as the Indian automakers looking towards the European market where higher standards in quality occur.

5.3 CARGO TRAY INDUSTRY

In the cargo tray industry there is at least 50 manufacturers and this result in a fierce competition. The cargo tray in India is not a differentiated product this also contributes to the fierce competition. The cargo trays in India are usually flat and made of rubber in comparison to Autoforms cargo tray which is made with edges and in plastic (Polypropylene). This makes Autoforms cargo tray to a differentiated product on the Indian market which is a positive factor.

Auto component shops as well as the big automakers/their distribution centers are both trying to get as low price as possible. Auto component shops buy small volumes and have not so strong bargaining power but since there are more than 50 cargo tray manufacturers in India they will buy from the cheapest manufacturer. When it comes to the big automakers/their distribution centers they have strong bargaining because they can buy large volumes. This means that if you want to manufacture cargo trays in India for the Indian market you have to price competitive.

India is known for its cheap raw material. The Indian manufacturers we have talked to are all using raw material from Indian sources. The fact that the manufacturers can buy their raw material from the domestic market contributes to maintain low production costs. As we mentioned before quality is less important than price. However when competing with quality a range of different materials are used and they are all found in India. The different material differs a lot in price. Rubber and PVC cargo trays are the cheapest and the nylon or polyester carpet are the most expensive. The price for a cargo tray to the end consumer varies between US$ 11 – 66.50 depending on material. We have found that the rubber and PVC are the most used raw material in the production of cargo trays and this is in line with the cheap pricing that both the automakers and the auto components shops demand.

The usage of the cargo tray in India is limited. We found that only 22 out of 48 cars were equipped with a cargo tray, most of them made of rubber. Some of the car owners claimed they had a cargo tray in their car but we found out that they were referring to the original trim cover. This means that the awareness
of the cargo tray existence is quite low. It also means that the Indians are not so careful about protecting their boot space from dirt and liquids. Yash at Mercedes-Benz told us that their cars are not delivered with cargo trays and if they were people would probably throw them away.

The Indian cargo tray industry can be seen as both interesting and appealing but at the same time there are a lot of factors to take in consideration. The facts that India is a developing country and the automobile industry is predicted to grow make the future of the cargo tray promising. But at the same time companies should not stare themselves blind on the positive growth. Other factors like regulations, existing manufacturers and culture are some of the factors that can be the difference between fail and success, rather than growth.
6. CONCLUSIONS

The answer to the research question is that the Indian cargo tray industry is a promising place for Autoform to make future investments. However there are many factors and forces to consider and be aware of.

Foreign companies can enter the Indian market thanks to its FDI regulations. We believe that the Indian cargo tray industry is a promising place if you have knowledge and insights about India and its business environment together with knowledge about the car- and cargo tray industry. We think that this mix of knowledge is very important to succeed. India's rapid development and growth is globally known and have attracted many successful companies. However, we believe that new entrants should not stare themselves blind on the positive growth. India is also a big country with the world's second largest population and the cultural diversity affects all parts of the society.

Since the second hand car market is increasing we believe that people will be more careful about their cars to maintain the resale value. This together with the fact that more and more people can afford to buy a car in India is promising for Autoform. Indians are today not aware of the product that Autoform are offering but since we believe that Indians will be taking better care of their cars in the future there is a possibility for success. We cannot say with 100 percent certainty that Indians will buy Autoforms cargo tray, if Autoform decides to enter India, but if Autoform somehow could create even more awareness about the importance of taking care of the boot space Autoforms cargo tray could be a success.

Autoforms cargo tray is different from what we found on the Indian market. The cargo trays on the Indian market are flat mats without edges and are often made of rubber. Autoforms cargo trays have edges and are made of plastic (Polyproylene) and this will keep water and dirt from getting into the car. This makes Autoforms cargo tray to a differentiated product in India, and if they can create awareness of these advantages they may have a product that can win market share.
7. Further Research

After writing this thesis we are convinced that India could be a promising place for Autoform, it is just a matter how well prepared they are when they enter. The next question will be how Autoform should enter India. What business model is the most appropriate and what strategies are the most preferable for Autoform. As mentioned in the thesis India is becoming more liberalized every year which is a good thing for Autoform. There are different business models and there are still many laws and regulations towards foreign companies that are important to take in consideration before entering India. We have scratched the surface and gathered some information about different business models and found two models that we think are the most appropriate for Autoform and for further research (see Appendix 5).
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Appendix 1. Auto component Shops

Name:                Position:

- Do you sell cargo trays (mats for truck space, boot space)?

If yes:

- Do you sell original (car brand) cargo trays or manufacturer’s brand?
- Where do you buy from?
- Why do you buy from them?
- How much do you sell them for?
- Which material are they made of?

If no:

- Why don’t you sell cargo trays?
- Do you sell something similar?
Appendix 2. Car Dealers

Name: Position:

- Do you sell cargo trays (mats for truck space, boot space)?

If yes
- To which models/brands?
- Are cargo trays (mats) included when buying a car from you?
- Or, do you sell them separate? (maybe both things are available)

Separate
- Where do you buy them from? Name of distributor? (Major distributors)
- Who are the manufactures? (Major players) (Made in India or imported?)
- Cost (customers), price range?
- Cost (your cost) from manufacturer?
- Do you sell a lot of cargo trays (Estimate number of mats sold in comparison with car sales)?
- Materials? (Rubber, PVC, Polypropene, Other?)
- Are they sold as an original part (car brand) or manufacturers own brand?
- To which car model do you sell most cargo trays?

Included
- Are your cars delivered with cargo trays (mats) direct as an original accessory from the factory, or do you put them in your car here?
- Where do you buy them from? Name of distributor? (Are there many distributors)
- Manufactures, (automakers or auto component companies) (name of manufacturer)?
- Are the customers aware if there is a cargo tray or not in the car?

If no:
- Why not?
- Are you aware of cargo trays (trunk space mat) exist?

Trends, car models:
- Most popular car models?
- Trend? Compact, mid-size, premium cars, etc?
Appendix 3. Garage

Notice: Car brand, model, material on the cargo tray.

- Do you a cargo tray in your boot space?

If yes:
  - Was the cargo tray included when you bought your car or did you buy it yourself?

If included:
  - Did you have to barging to get it included?

If bought it yourself:
  - Where did you buy it?
  - How much did it cost?

If no cargo tray:
  - Do you have something else to protect your boot space? (Substitute)

If yes:
  - What do you have?
  - Where did you buy it?
  - How much did it cost?

If no:
  - Would you like to have something to protect your luggage?
  - Are you aware of the existence of cargo trays?
Appendix 4. Manufacturers

We call this product a cargo tray also known as a floor mat for the boot space.

What do you call this mat?

Which material do you use in your production of cargo trays?

Where do you buy your raw material?

Who are the biggest players when it comes to Raw material suppliers?

Do you have bargaining power to your suppliers of raw material? Why/why not?

How do you produce (production method) your cargo trays?

Manufacturing costs?

Selling price?

Who are your customers? (Distributors, Automakers, Car dealers, Auto components shops etc.)

Do your customers have bargaining power to you? Why/why not?

Are the cargo trays made as an OE (Original Equipment) or under your own brand?

Is there any countries competing with India? Which countries?

Who are the biggest players in India when it comes to manufacturing of cargo trays?
Appendix 5. Further Research/Business Models

FURTHER RESEARCH

In this appendix we will present five different business models and which two models that we think are most appropriate for Autoform and for further research.

BUSINESS MODELS

As a foreigner opening a company in India there is five options. Either you agree upon a joint venture with an Indian partner or you can set up a wholly owned subsidiary and are then treated as an Indian company. You can also establish a Liaison Office, a Project Office or a Branch Office and then you are treated as a foreign company. (siapdipp.nic.in, Entry strategies for foreign investors)

Joint venture is a business model where foreign investors may join with local investors to create a company in which they share ownership and control. This is sometimes necessary if a foreign company wants to enter because of the laws regarding equity. (Kotler, 2007, p 677) With established contacts and knowledge about the culture an Indian partner can help you smoothen the process of setting up operations (siapdipp.nic.in, Entry strategies for foreign investors). Joint ventures have its drawbacks when it comes to disagreements between the two owners. Partners may disagree over investments or marketing policies and those disputes can be tough to solve. (Kotler, 2007, p.677)

In a Wholly owned subsidiary you own 100 Percent of your company. This business model is only permitted in the sectors where 100 percent FDI is allowed. When a company has been registered and incorporated as an Indian company it is then a subject to the same Indian laws and regulations as the domestic companies. (siapdipp.nic.in, Entry strategies for foreign investors)

The Liaison Office operates like a communication channel between companies. A liaison office can not have any commercial activity and can therefore not earn any income. The purpose off a liaison office is strictly limited to collect information about markets and to simplify technical and financial collaboration between company’s inside- and outside India. (siapdipp.nic.in, Entry strategies for foreign investors)

Companies that run projects in India during a fixed period can set up a Project office. Such offices can only run business that is related to the ongoing project. In this business model the Reserve bank of India (RBI) has granted that the surplus made when the project is completed can be transferred outside India. (siapdipp.nic.in, Entry strategies for foreign investors)

Foreign companies involved in manufacturing and trading activities abroad can set up a branch office in India. A branch office is not allowed to carry out any manufacturing itself. Instead they have to subcontract this to Indian manufacturers. Branch offices that have the approval of Reserve bank of India may transfer profit outside India as long as Indian taxes are paid. (siapdipp.nic.in, Entry strategies for foreign investors)

Branch offices can perform the following purposes.
- Export/Import goods
- Perform professional or consultancy services
- Make research in which the parent company is involved
- Promote collaborations between Indian companies and the parent company
- Act as a buying/selling agent to the parent company

A branch office that operates on a standalone basis does not need any approval from Reserve Bank of India. Such office operates in special economic zones (SEZ) in India and no business activities outside the special economic zones are allowed, which means that only exporting is allowed. (siapdipp.nic.in, Entry strategies for foreign investors)

**ENTERING INDIA ANALYSIS**

If a company want to compete with domestic auto component industry by exporting to India the product should be differentiated or offer other benefits that the Indian competitors cannot. As mentioned earlier the labor and raw materials are cheap in India and this is an advantage. Those factors together with the high import customs that India has makes the undifferentiated, high scale produced products, such as cargo trays, unprofitable on the Indian market.

There are other ways to enter the Indian market apart from exporting. Many foreign companies choose to set up their own facilities in India. Even though the Indian economy is getting more liberalized every year there is still laws and regulations to control foreign owned companies and foreign investments. There are five business models, but when it comes to manufacturing cargo trays the Indian government allows two business models.

One of them is Joint venture were you share ownership and control with an Indian partner. There are many successful examples of this business model. Maruti Suzuki is one of them which now are one of the biggest automakers in India. One advantage of this business model is that your Indian partner will have knowledge about the Indian business system, culture, languages, consumer behavior and posses a well developed network. This can smooth the process of setting up operations in India. To initiate a joint venture can also have its drawbacks like disagreements between owners about investments or other economical decisions.

The second alternative is a wholly owned subsidiary where you own 100 percent of the company. Under this business model foreign companies are treated under the same laws and regulations as the domestic companies. One exception is the tax rate. The top effective tax rate for a domestic company is 33.99 percent compared to 42.23 percent for a foreign company. The positive aspect of this business model is that you make your own decisions and control your own company. On the other hand, if you lack knowledge and experience about the Indian market it can be difficult to take the right decision.

Although India is getting more and more receptive to foreign companies and foreign investments these two business models make it obvious that the Indian government still is protecting domestic companies from foreign competition. Another example of this is the Special Economic Zones. SEZ is an area where both joint venture and wholly owned subsidiary are allowed to set up their business. Inside a SEZ
companies can produce goods for exports with tax redemption for a limited amount of time. If companies inside a SEZ want to sell within the domestic market that they lose their benefits and the goods also becomes a subject to payment of full custom duty.

By implementing SEZ the Indian government is allowing foreign companies to operate in India without increasing the competition within the Indian market. This creates a win – win situation because the foreign companies receive benefits on producing goods for export and at the same time they can employ cheap labor. The Indian government benefits from the jobs getting created as well as the domestic suppliers being used. When the tax redemptions have expired the government can also begin to collect tax.

**ENTERING INDIA CONCLUSIONS**

We will now present our conclusions for the two business models that we think are the most suitable for a successful future investment in India.

A wholly owned subsidiary is a business model where the foreign company owns 100 percent of the investments. We believe that this business model is suitable if the foreign company have great prior understanding about the mix of knowledge mentioned above.

Joint venture is a business model where the foreign company has to enter into cooperation with an Indian partner. This limits the ownership for the foreign investor but on the other hand we mean that the Indian partner posses knowledge about India that are useful if the foreign company lack knowledge about the same. Shared ownership also means that decisions are made together therefore it is very important to find the right partner for a sustainable partnership.

If the foreign company is only interested in manufacturing and export their gods and not sell it into the domestic market, a good alternative for both of these business models are to set up their factories in a Special Economic Zone. The positive aspect of a SEZ is that goods made for export are a subject for tax redemption. Even though companies in a SEZ do not reach the huge Indian market they still take advantage of the benefits that India offers, for instance, cheap labor force and raw material. We believe that if you succeed to establish a company inside a SEZ you have great opportunities to compete on the international cargo tray market.

Finally we want to determine the possibility of export cargo trays to India and we believe that exporting cargo trays to India will not be profitable. The reasons for this are India’s high customs and the low price for the Indian made cargo tray.