

Maruti Suzuki – Reigning Emperor of Indian Automobile Industry

Gunjan Malhotra and Soumyadeep Sinharay*

It was first week of June 2010. Mr Shinzo Nakanishi, MD & CEO of Maruti Suzuki India Limited (MSIL) was in a very nice mood, particularly because of MSIL's performance in last calendar month. For the first time in history, MSIL has sold over one lakh units in a month in May 2010. Sitting in his suite, he was wondering how this company has come up its ages in Indian environment. He was realizing the commitment of his employees and managers; also he was planning to announce a reward to all his employees. Then there was a knock on his door and then Mr. Tsuneo Ohashi, Managing Executive Officer: Production came in. Mr. Tsuneo informed him that the research desk of a leading investment bank has started doubting the YOY growth of the organization and has suggested its clients to offload their investments from MSIL. Mr. Nakanishi became perturbed. In his sub-conscious mind he was going back through all the incidents which happened in Indian business environment over the last 25 years and how MSIL has strategized to remain the dominant market share. He was trying to find out where it went wrong?

Automobile Industry in India

Till the 1980s, the automobile industry in India was in line with the overall policy of State intervention in the economy. Vehicle production was closely regulated by an industrial licensing system that controlled output, models and prices. The cars were built mostly by two companies, Premier Automobiles Limited and Hindustan Motors Limited [Exhibit 5]. Premier Padmini by Premier Automobiles Limited and Ambassador by Hindustan Motors were the major players in the 1980s. However, the Indian market got transformed after 1983 following the relaxation of the licensing policy and the entry of Maruti Udyog Limited (MUL) into the car market.

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Maruti Suzuki: The Company

Maruti Udyog Limited (MUL) was established in Feb 1981 [Exhibit 1] through an Act of Parliament. Its main purpose of establishment was to meet the growing demand of a personal mode of transport, caused by the lack of an efficient public transport system. It was established with the objectives of - modernizing the Indian automobile industry, producing fuel efficient vehicles to conserve scarce resources and producing indigenous utility cars for the growing needs of the Indian population. A license and a Joint Venture agreement were signed with the Suzuki Motor Company of Japan in Oct 1983, by which Suzuki acquired 26% of the equity and agreed to provide the latest technology as well as Japanese management practices. Suzuki was preferred for the joint venture because of its track record in manufacturing and selling small cars all over the world. There was an option in the agreement to raise Suzuki's equity to 40%, which it exercised in 1987. Five years later, in 1992, Suzuki further increased its equity to 50%. In 2002, the government decided to hand over management control in Maruti Udyog Ltd (MUL) to Suzuki Motor Corporation (SMC) for a consideration of Rs 1,000 crore. At that time the government held 49.76 per cent equity in Maruti, with SMC holding 50 per cent [Exhibit 2] and the remaining 0.24 per cent being held by an employee's trust. SMC acquired controlling stake in the country's leading car manufacturer by way of the government renouncing its subscription to a Rs 400-crore rights issue of MUL. After the rights issue, SMC ended up having a 54.20 per cent stake in the company, with the Centre's share falling to 45.54 per cent. In June 2003, the government sold a 27.5 per cent stake in Maruti to the public at a price of Rs 125 per share to garner Rs 993 crore (Rs 9.93 billion). As of May 10, 2007, Govt. of India sold its complete share to Indian financial institutions. With this, Govt. of India no longer has stake in Maruti Udyog.

Maruti Suzuki: Business Description

Maruti Suzuki India Limited (MSIL) is engaged in the manufacturing and distribution of passenger cars and spare parts. It is a subsidiary of Suzuki Motor Corporation (SMC) of Japan. The company offers a range of spare parts and accessories of all the vehicles. The company has two manufacturing facilities; one is at Gurgaon and the other at Manesar in India. Maruti Suzuki's facility in Gurgaon houses three fully integrated plants with a total

installed capacity of 350,000 cars per year. The Gurgaon facility also houses 'K' Engine plant, which has an installed annual capacity of 240,000 engines. The Manesar facility manufactures models such as Swift, A-star, SX4 and DZire [Exhibit 4]. Suzuki Powertrain India Limited, the diesel engine plant at Manesar is SMC's & Maruti's plant designed to produce diesel engine and transmissions for cars. The plant is under a joint venture company, called Suzuki Powertrain India Limited (SPIL) in which SMC holds 70% equity the rest is held by MSIL. The company offers luxury cars, sports utility vehicles and multi-purpose vehicles. The company offers entry-level cars such as Maruti 800 and Alto; family cars such as Ritz, A star, Swift, Wagon R, Estilo and Eeco; luxury cars such as DZire and SX4; and sports utility vehicle such as Grand Vitara. The company's service businesses include TrueValue, which is involved in the sale and purchase of pre-owned cars. The company offers insurance and finance services such as Maruti Insurance and Maruti Finance. MSIL's N2N fleet management system offers a range of services including, leasing, maintenance, convenience services and remarketing. The company has a sales network of 600 outlets spread over 393 towns and cities in India. MSIL also provides maintenance support to customers through 2628 workshops spread over 1200 towns and cities of India [Exhibit 8 & 9].

Indian Environment: Key Changes

Changes in Business Environment

Economic growth

Rise in the industrial and agricultural output indirectly helps Indian Auto industry

Industrial and agricultural output increase has reflected in higher GDP and overall growth of the economy. Higher GDP means more purchasing power. Sales of vehicles for domestic and commercial consumption have seen high growth. The following graph plots the Index of Industrial Production over the last two decades. We can observe the effect of the liberalization policy on the manufacturing sector. We can observe an upward trend since 1990.

As far as agriculture is concerned, though the share of agriculture in the GDP has been decreasing, in absolute terms the agricultural output has been increasing over the years leading to increase in purchasing power of rural India.

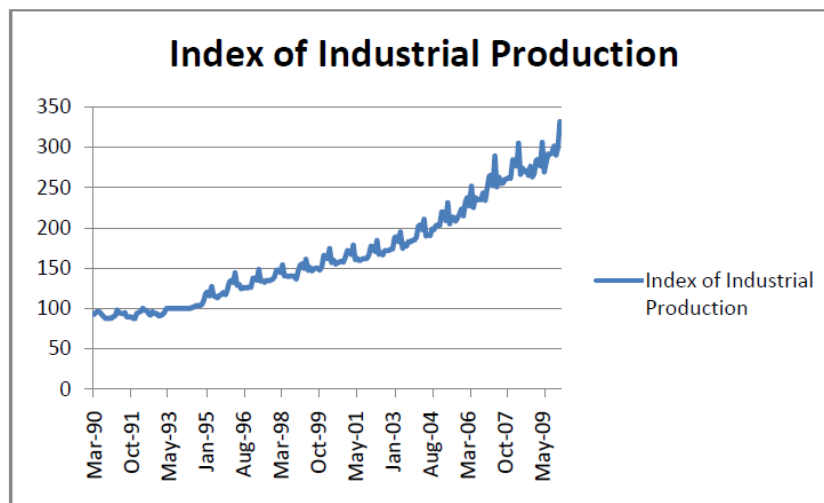


Figure 1 – Index of Industrial Production (Source: CMIE)

Rise in the Per capita income increases two/four wheeler sales

The following is the plot of the per capita GDP of India from 1990 to 2008. We can see an almost exponential growth in the per capita GDP which indicates that the standard of living of people has improved drastically over the last two decades.

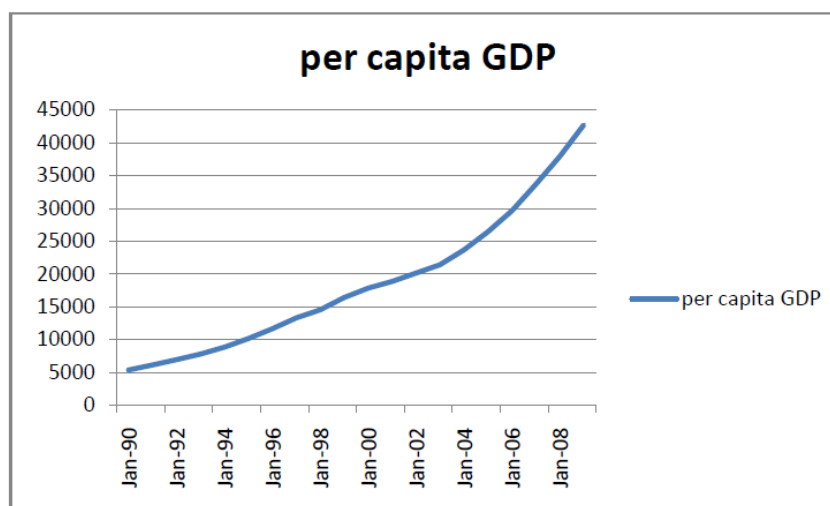


Figure 2 – Per Capita GDP (Source: CMIE)

Industrial growth in the 70s, IT boom in the 1980s and BPO boom in the 1990s have transformed the Indian middle class. The rising industrial and agricultural output has led to

the increase in per capita income. Rising working population and middle class urbanization has been taking place over the years. Also, there has been an increasing disposable income in the rural agricultural sector. The present generation is able to earn the same levels of salary that their parents were earning after years of work. This has pushed up the demand for two and four wheelers.

Rising working class and middle class contribute to increased demand of automotive

Post 1980s, a surging economy has created millions of new jobs in the private sector. This has led to a lot of prosperity in the working class and the middle income households. They are able to provide for food, clothing and education and also are able to think of owning luxuries like vehicles. According to the Planning Commission report, between the year 2003 and 2009, 130 million people would have been added to the working population.

Changes in Society

The boom in the Indian economy has led to the rise of a new affluent middle and upper-middle class who have a large spending power. Purchasing power and mindset of people has changed in India. With the increasing level of income of urban people, the small cars are not considered to be luxury item any more. Increased awareness among consumers has increased expectations. The concept of value for money has strongly evolved over the last few years. Thus the ability to innovate has become critical. With consumer preferences changing, inter product substitution is taking place. Mini cars had started being replaced by compact or mid-sized cars. Mini segment continued losing market share. Growth has been mainly led by the Compact and Mid-range segments. Additionally, in terms of engine capacity, the Indian passenger car market is moving towards cars of higher capacity. In the early 1990s Maruti Suzuki had only 3 models to offer i.e. Maruti 800, Omni and Gypsy. Maruti 800 is now perceived as an entry level car for those who are upgrading from a two wheeler to a four wheeler and cannot afford to invest more money on a car. Also, due to the huge increase in fuel prices people buying cars have started considering fuel efficiency of the car as one of the important factors while deciding which car to buy. Also post liberalization within a given budget people have numerous competitive options from various companies each have its own gamut of merits and demerits. So, there has been a

tremendous increase in the competition in the automotive industry and this has indirectly influenced the tastes and preferences of the consumers. Banks and other financing companies started providing car loans at reasonable interest rate. Also the terms and conditions for Auto loans have been relaxed. Various auto companies have tie ups with banks for auto loans. A consumer can just walk in a showroom and avail loan and buy a car.

Changes in Government Policies

Until the early 1990s, the automotive sector in India was highly protected. This was in the form of steep import tariffs and measures that restricted the participation of foreign companies. Hindustan Motors (HM) and Premier Automobile (PAL) that were set up in 1940's dominated the vehicle market and industry. In the 1950s, the arrival of Tata Motors, Bajaj Auto, and Mahindra & Mahindra led to steadily increasing vehicle production in India, while the 1960s witnessed the establishment of the two- and three-wheeler industry in India. However, the automotive industry witnessed tremendous growth after the entry of Maruti Udyog in the 1980s. In 1983, the government permitted Suzuki - for some time, the only FDI player - to enter the market in a joint venture with Maruti - a state operated enterprise at the time. Ten years later, as part of a broader move to liberalize its economy, India de-licensed passenger car manufacturing and opened it up further to foreign participation. That brought a wave of FDI to India's vehicle industry. Import barriers have been progressively relaxed. Today, almost all of the major global players are present in India. The policy framework surrounding the Indian automotive industry has evolved from a heavily regulated one until the 1970s, to a partially liberalized one in the 1980s, and to a liberalized one from 1991 onwards. This strongly indicates that the government policies have played a clear role in the growth of India's automotive industry. Hence, to obtain an insight into the role of government in industry development in general and that of the Indian government in the development of India's automotive industry (including auto components) in particular is necessary. In line with the overall purpose, we will identify and understand the government policies those have influenced the development of Indian automotive industry. Some important policy decisions in the liberalization phase (1991 onwards) and their influence on the development of India's automotive industry are as follows:

- In 1991-93, de-licensing of all automotive segments led to higher industry growth. India has been moving up in its world ranking for production of commercial vehicles and cars. Production of vehicles in India crossed the 10 million mark in 2006. The New Industrial Policy of 1991 abolished the licensing requirement for commercial vehicles, public transport vehicles, automotive two wheelers, three wheelers and automotive components and ancillaries. However, passenger car was de-licensed in 1993. Now, no license is required for setting up of any unit for manufacture of Automobiles except in some special cases.
- In 1997, automatic approval for FDI up to 51% equity led to increased competition and rising industry standards. 17 new ventures involving foreign players had come up after 1993.
- In 2002, automatic approval for FDI up to 100% equity stimulated the demand and increased internationalization. 100 per cent Foreign Direct Investment (FDI) is permissible under automatic route in automotive sector including passenger car segment. FDI in Indian automotive sector grew at a CAGR of 77% over the period 2004-05 to 2007-08.
- In 2002, higher incentives and push for local R&D increased spending on R&D. The import of technology or technological up gradation on the royalty payment of 5 per cent without any duration limit and lump sum payment of US \$ 2 million was also allowed under automatics route. This liberalization has helped this sector to restructure itself, absorb newer technologies, and keep pace with the global developments realizing its full potential. Local R&D centers were announced by Maruti Suzuki and Hyundai.
- Since July 2004, 150% deduction of R&D expenses from taxable income has been allowed. This scheme is valid till March 2012.
- In 2006, the government reduced excise duty on compact cars from 24% to 16%, giving a clear signal that it wants to encourage investment in this segment and develop India into a global manufacturing hub for small cars. This move by the government presented both challenges and opportunities for Maruti.

The automatic approval of 100% FDI in 2002 has led to a huge increase in the FDI trend in Indian automotive industry.

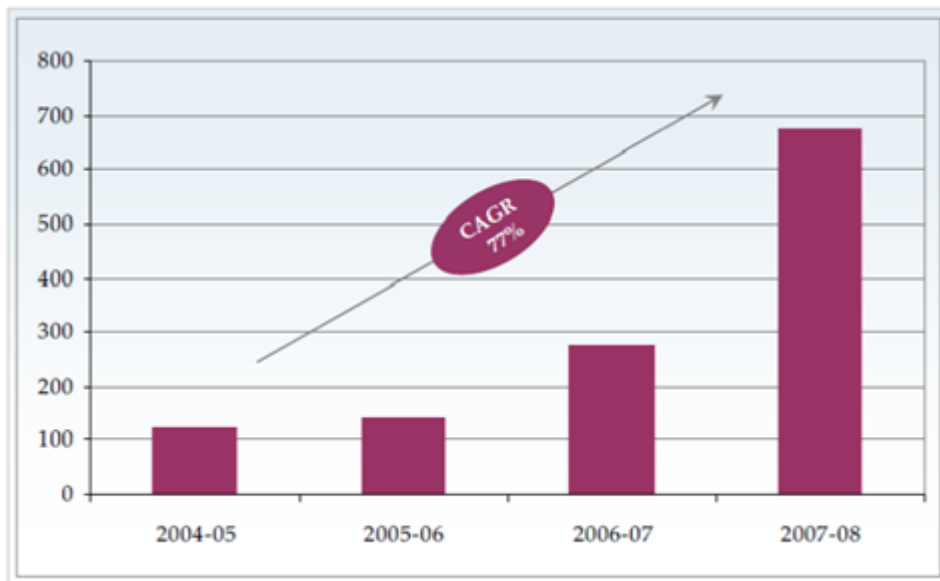


Figure 3 – FDI in India's Automotive Sector (in million USD) (Source: GOI)

Changes in Competitive Environment

Since independence the production of vehicles in India has grown exponentially: from a mere 10,000 vehicles in 1950, to over 10 million by 2006. The production trend indicates distinct transitions, with each successive transition demonstrating a higher production growth. Economic liberalization in 1991 has served as a launch pad for the current growth.

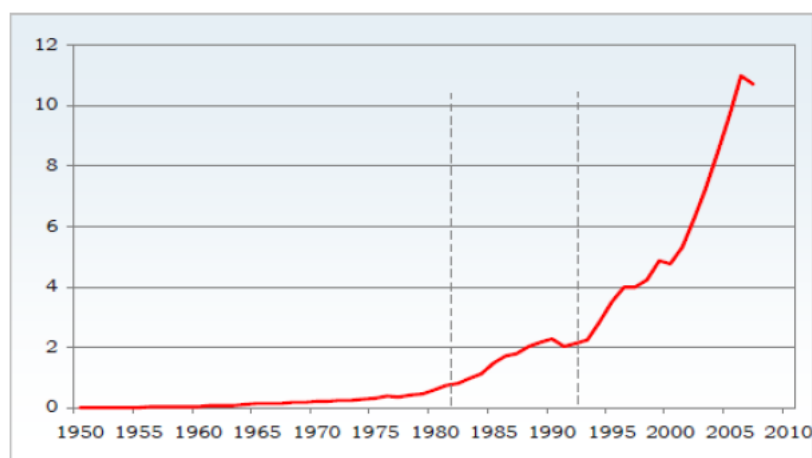


Figure 4 – Total Production of Vehicles in India (in Million units) (Source: ACMA)

As a result of the liberalization, now there are numerous players in the automotive sector give rise to huge competition for market share. The government's decision to cut the excise duty on the manufacture of compact cars in 2006 by 8 % has led to major automotive players in India to foray in this segment. Two major requirements for a car to be classified as a compact car according to the government of India is that its engine capacity should not exceed 1200 cc and its length should not exceed 4000 mm. So companies started designing cars in the premium hatchback segment and to take the benefit of the cut of 8% excise duty they designed the premium hatchback so that it classifies as a compact car. If we see the engine capacities of some of the newly launched cars we see that they have an engine capacity of 1197 cc and lengths just below 4000 mm. Hyundai launched i20, Honda launched Jazz and Fiat launched *Punto*. Maruti in response launched Ritz with an engine capacity of 1197 cc and redesigned the engine of Swift (which originally had a 1300 cc engine) so that it falls in the compact car category.

Other Changes

Growth in the road infrastructure increases demand for vehicles

Indian highways and roads have improved a lot in quality and connectivity in the last 20 years. Projects like the Golden Quadrilateral aim to make even remote areas accessible by road. Some of the National Highways are of international standards. This has made road transport a viable, cost effective and speedy option both for goods and passenger traffic.

Urbanization changes the face of Indian auto industry

Joint families in towns and villages have given away to migration of the younger generation to cities in search of better opportunities. The new-age educated migrants and nuclear families (many with double income couples) have a higher purchasing power. Presently, the rate of spread of urbanization is 30%.

Exhaustive range of options in price and models of automotive

Indian consumer in 70s and 80s had to choose between Premier Padmini or an Ambassador. Now there are at least 123 different models of cars from 30 odd

manufacturers available. The prices of the compact cars like Tata's Nano have made the world sit up and take note of the truly unbeatable price points.

Attractive Finance Schemes for purchase of automotive

Most nationalized and foreign banks have very tempting finance options and low interest rates for purchase of cars and two wheelers. There are specialized companies that finance the commercial vehicles. All this has made the dream of owning a vehicle an easy reality.

Maruti Suzuki's Breathtaking Strategies

Maruti was the undisputed leader in the automobile utility-car segment sector, controlling about 84% of the market till 1998. With increasing competition from local players like Telco, Hindustan Motors, Mahindra & Mahindra and foreign players like Daewoo, PAL, Toyota, Ford, Mitsubishi, GM, the whole auto industry structure in India has changed in the last decade and resulted in the declining profits and market share for Maruti. At the same time the Indian government permitted foreign car producers to invest in the automobile sector and hold majority stakes. In the wake of its diminishing profits and loss of market share, Maruti initiated strategic responses to cope with India's liberalization process and began to redesign itself to face competition in the Indian market.

Cost Reduction and Operational Efficiency

After their fall in market share in the late 1990s, cost reduction strategies were adopted. Cost reduction is being achieved by reaching an indigenization level of 85-90 percent for all the models. This would save foreign currency and also stabilize prices that fluctuate with exchange rates. However, change in the mindset was not as fast as required by the market. Maruti planned to reduce costs, increase productivity, quality and upgrade its technology (Euro I&II, MPFI). In addition the increase in capacity led to economies of scale. Joint initiatives taken by Maruti and its team of suppliers had generated over 29% cost reduction over three years for Maruti. Less than 20 per cent of a car is manufactured in-house. The rest is accounted for by 215 suppliers and hundreds of second and third tier of vendors who, in turn, supply to them. With the program of organizational redesign, rationalization of cost

and enhanced productivity, Maruti bounced back to competition with 50.8% market share and 40% rise in profit for the FY2002-2003. Shown below are the man-hours per vehicle from 2001 to 2007.

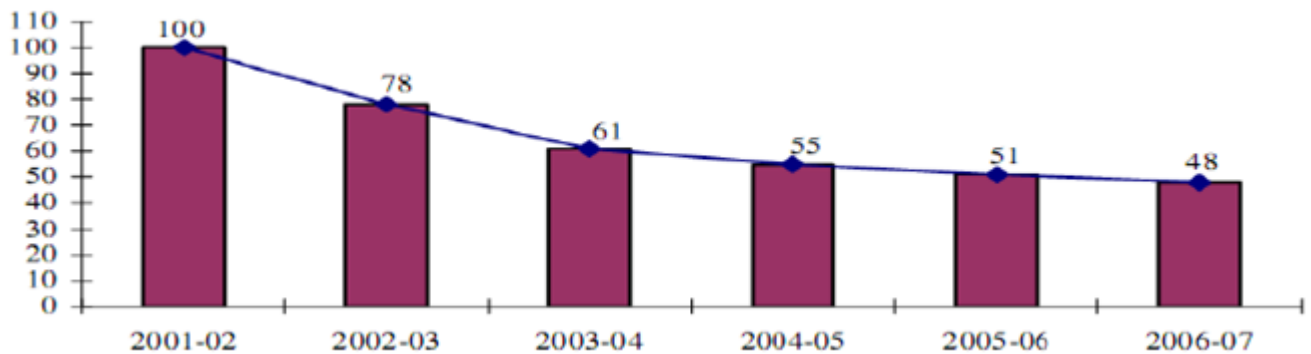


Figure 5 – Man-Hours per vehicle (Indexed to 2001-02)¹

Catering to All Price Segments

This is a market penetration strategy of Maruti Suzuki Ltd. It caters to all segments and has a product offering at all price points. It has a car priced at Rs.1, 87,000 which is one of the lowest offers on road. Maruti gets 70% business from repeat buyers who earlier had owned a Maruti car. Their pricing strategy is to provide an option to every customer looking for up gradation in his car. Their sole motive of having so many product offering is to be in the consideration set of every passenger car customer in India. Here is how every price points are covered.

Diversification of Business

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

¹ Adapted From: MUL Annual Report 2006-07

*Maruti Finance*²

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

*Maruti Insurance*³

Insurance is a major concern of car owners. Maruti has brought all car insurance needs under one roof. Maruti has tied up with National Insurance Company, Bajaj Allianz, New India Assurance and Royal Sundaram to bring this service for its customers. Maruti Insurance is a hassle-free way for customers to have their cars repaired and claims processed at any Maruti dealer workshop in India.

*True Value*⁴

It is an initiative to capture used car market. A significant development is MUL's entry into the used car market in 2001, allowing customers to bring their vehicle to a 'Maruti True Value' outlet and exchange it for a new car, by paying the difference. They are offered loyalty discounts in return. This helps them retain the customer. With Maruti True Value customer has a trusted name to entrust in a highly unorganized market and where cheating is rampant and the biggest concern in biggest driver of sale is trust. Maruti has created a system where dealers pick up used cars, recondition them, give them a fresh warranty, and sell them again. All investments for True Value are made by dealers.

² Source: <http://www.marutifinance.com/> (Last accessed: 13 August 2010)

³ Data Source: <http://www.marutisuzuki.com/> (Last accessed: 13 August 2010)

⁴ Source: http://www.marutitruevalue.com/AboutUs_MarutiTrueValue.aspx (Last accessed: 13 August 2010)

Unique advantages

- India's largest certified used car dealer network
- 340 outlets in 197 cities and growing
- All car related services under one roof
- Professionally trained manpower
- Complete peace of mind

Maruti True Value business expands the family of Maruti customers, providing reassurance to existing Maruti customers about resale of their cars and further emphasizes Maruti's Commitment towards enhancing customer satisfaction by continuous association during the vehicle ownership life cycle. No one knows your Maruti car better than Maruti - based on this premise; Maruti channelizes its expertise to ensure that transactions in pre-owned cars are transparent and fair. Through that, the company endeavors to extend the relationship and emotional connect that it enjoys with the customer. True Value has transparent and fair evaluation process, which is currently missing in the largely unorganized market for pre-owned cars. Maruti True Value processes and systems ensure that the seller gets the right price and is paid promptly. Under True Value, the seller has the option to be paid in cash, or get a True Value car in exchange or a brand new Maruti Suzuki car in exchange. True Value category cars bought by Maruti True Value dealers are taken to state-of-the-art workshops. True Value Category cars are refurbished in state of art workshops using Maruti Genuine Parts and by skilled technicians. These cars are then sold through Maruti True Value outlets. As a mark of confidence, and to provide reassurance to customers, every vehicle bought under Maruti True Value is inspected and certified by Maruti Engineers and the Car carries a one-year warranty and three free services. Convenient finance options are also offered to buyers of Maruti True Value cars.

Vehicle Maintenance Services Promotion

In 1999, management of Maruti observed that while car companies were moving from products to services, trying to capture more of the total lifetime value of a car, Maruti was just making and selling cars. If a buyer spends Rs 100 on a car during its entire life, one-third of that is spent on its purchase. Another third went into fuel. And the final third went into maintenance. So Maruti decided to take a big share of this final one-third spent on

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

*N2N Fleet Management System*⁵

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

N2N Benefits

- A wide range of cars to choose from- Maruti 800 to Grand Vitara.
- Low Investment- Residual Value based EMI.
- Tax benefits- Lease rentals can be shown as revenue expenditure.
- N2N maintenance- Saves time and money.
- N2N remarketing- Speedy and efficient resale of the old/existing fleet.

N2N Range of Services

Vehicle Acquisition

- Comprehensive Vehicle Acquisition Program with single window solution
- Insurance, registration and road tax management services.

Insurance Cover

- A Comprehensive Insurance renewals and Accident Management Program with virtually cash less claim transactions.

⁵ Source: <http://www.marutisuzuki.com/n2n-leasing.aspx> (Last accessed: 13 August 2010)

Vehicle Maintenance

- A Comprehensive OEM backed Full Service Maintenance Program.
- Tyre/battery replacements as per OEM recommendations.
- Extensive MIS reporting of car's condition from time to time.
- Emergency support services
- Replacement vehicles in case maintenance downtime are more than 24 hours.

Vehicle Remarketing

- A Vehicle Resale Program for your fleet.
- Hassle-free resale of vehicles through Maruti's Pre-Owned Car channels.

Maruti Driving School (MDS)⁶

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

MDS not just imparts better driving skills but also tries to inculcate safe driving culture through special theoretical sessions for behavioral training and road sense. The school was the first to introduce advanced driving training simulator for better judgment and concept of route maps for holistic on-road practice. Having started from Bangalore in March 2005, Maruti Driving School has now spread its network throughout the country. It is dedicated towards making Indian roads safer by helping learners become smart and responsible motorists.

The salient features of MDS include:

- Training imparted by instructors who are trained at IDTR. The certification of Instructors comes after a tough evaluation process. MDS has specially

⁶ Source: <http://www.marutidrivingschool.com/> (Last accessed: 13 August 2010)

appointed lady instructors for the benefit and comfort of women trainees.

- A curriculum that comprises comprehensive theory and practical sessions. The theoretical component focuses extensively on attitudinal and behavioural training and deals with the problem of road rage.
- Use of advanced passenger car simulators for imparting driving training. The simulator familiarizes the trainee with car controls, before the trainee actually takes the car on road. It also simulates a variety of conditions such as night driving, hill driving, road and light conditions.

Practical training provided on new cars fitted with dual control for enhanced safety and air-conditioning for comfortable learning.

Customer Centric Approach & Awards

Maruti's customer centricity is very much exemplified by the five times consecutive wins at J D Power CSI Awards [Exhibit 12]. Maruti dealers and employees are answerable to even a single customer complain. There are instances of cancellation of dealerships based on customer feedback. Maruti has taken a number of initiatives to serve customer well. They have even changed their showroom layout so that customer has to walk minimum in the showroom and there are norms for service times and delivery of vehicles. The Dealer Sales Executive, who is the first interaction medium with the Maruti customer when the customer walks in Maruti showroom, is trained on greeting etiquettes. Maruti has proper customer complain handling cell under the CRM department. The Maruti call center is another effort which brings Maruti closer to its customer. Their Market Research department studies the changing consumer behaviour and market needs. Maruti enjoys seventy percent repeat buyers which exemplifies their claim of being customer friendly. Maruti is investing a lot of money and effort in building customer loyalty programmes. With the advent of good highways, Maruti was sensitive to the needs of long distance commuters. Wagon R Duo, which runs on both petrol and LPG, was launched in July 2006. It has been accepted well by customers.

Maruti executed a plan to launch new models for different segments of the market. In its redesign plan, Maruti launches a new model every year, reduce production costs by achieving 85-90% indigenization for new models, revamp marketing by increasing the dealer network from 150 to 300 and focus on bulk institutional sales, bring down number of vendors and introduce competitive bidding. There has also been a shift in business focus of Maruti. When Maruti commanded the largest market share, business focus was to “sell what we produce”. The earlier focus of the whole organization was on production but now the focus has shifted to "marketing and customer focus". This can be observed from the changes in mission statement of the organization: 1984: "Fuel efficient vehicle with latest technology", 1997: "Creating customer delight and shareholders wealth". Focus on customer care has become a key element for Maruti. Increasing Maruti service stations with the scope of one Maruti service station every 25 km on a highway, was another major step. To increase its market share, Maruti launched new car models, concentrated on marketing and institutional sales. Institutional sales, currently contributes to 7-8% of Maruti's total sales. Maruti has dealt with this change in perception and preferences of people by offering a range of cars in the hatchback segment and some in the mid-range segment and also in SUV. It currently manufactures the following hatchbacks in different price ranges to suit a wide range of customers with different preferences – Maruti 800, Alto, Estilo, Wagon-R, A-Star, Ritz, and Swift. In the mid-range segment it has Swift Dzire and SX4. It has also launched an SUV with the brand name of Grand Vitara. Changes have been made from time to time based on market responses or consumer tastes and preferences. Different models have been modified and given facelifts from time to time so that they remain competitive in the market.

Disinvestment and IPO⁷

In 2002, Suzuki Motor Corporation (SMC) took over management control of Maruti Udyog Ltd (MUL) from the government for a consideration of Rs 1,000 crore. At that time the government held 49.76 per cent equity in Maruti, with SMC holding 50 per cent and the remaining 0.24 per cent being held by an employee's trust. SMC acquired controlling stake in the country's leading car manufacturer by way of the government renouncing its

⁷ Data Source: CMIE Database (Last accessed: 13 August 2010)

subscription to a Rs 400-crore rights issue of MUL. After the rights issue, SMC ended up having a 54.20 per cent stake in the company, with the Centre's share falling to 45.54 per cent. In June 2003, the government sold a 27.5 per cent stake in Maruti to the public at a price of Rs 125 per share to garner Rs 993 crore (Rs 9.93 billion). Suzuki's control meant Maruti did not have to mind the whims and fancies of ministers and bureaucrats. Decisions became quicker. The response to changing market conditions and technological needs became faster. They flowed fund in India for the major revamp in MUL. Suzuki also built a two-wheeler facility in India for manufacturing motorcycles and scooters through a joint venture, in which Maruti has 51 per cent stake. Disinvestment had helped by removing the red tape and bureaucracy factor from its strategic decision making process. When GOI was a major stakeholder in the MUL, strategies which lead to investment have had a bureaucracy factor in it but after the disinvestment strategy followed is a top down approach with a fast implementation.

Diesel Foray⁸

A diesel engine plant at Manesar was built to produce world class diesel engines and transmissions for cars. The plant is under a joint venture company, called Suzuki Powertrain India Limited (SPIL) in which Suzuki Motor Corporation holds 70 per cent equity the rest is held by Maruti Suzuki India Limited. This was done in line with its plan to become a major player in diesel vehicles in a couple of years and meet the growing demand of diesel cars in India. Tata dominated the diesel car market in India. Maruti had an insignificant presence in diesel vehicle. The plant has a capacity to produce one lakh diesel engines. This reduced the imported component in Maruti vehicles, making them more competitive in the Indian market. Now, Maruti has diesel variants in almost all its models.

Increase in Exports

In August, 2003 Maruti crossed a milestone of exporting 300,000 vehicles since its first export in 1986. The top ten destination of the cumulative exports have been Netherlands, Italy, Germany, Chile, U.K., Hungary, Nepal, Greece, France and Poland in that order. Maruti has entered some unconventional markets like Angola, Benin, Djibouti, Ethiopia, Morocco,

⁸ Source: <http://www.marutisuzuki.com/> (Last accessed: 13 August 2010)

Uganda, Chile, Costa Rica and El Salvador. The Middle-East region has also opened up and is showing good potential for growth. Some markets in this region where Maruti is are Saudi Arabia, Kuwait, Bahrain, Qatar and UAE. The markets outside of Europe that have large quantities, in the current year, are Algeria, Saudi Arabia, Sri Lanka and Bangladesh.

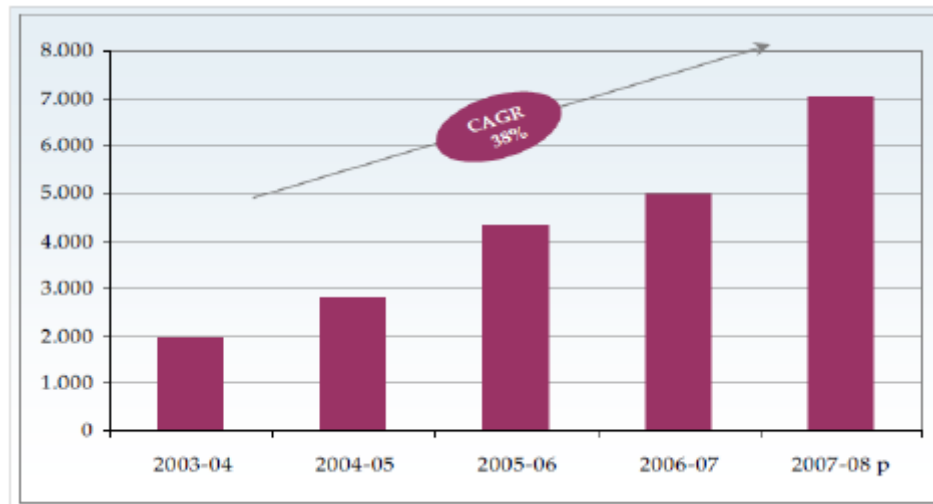


Figure 6 – Total Automotive Export (in Million USD)⁹

Maruti exported more than 51,000 vehicles in 2003-04 which was 59% higher than last year. In the financial year 2003-04 Maruti exports contributed to more than 10% of total Maruti sales. Maruti has also entered into a deal with Nissan, where Nissan has contracted to buy A-Star and retail it in Europe under their brand name “Pixo”. Maruti has made A-Star Euro-V compliant and one of the most fuel efficient vehicles and exports it to different countries.

The Next Step

Correct Strategy at correct time has always kept the boat of Maruti ahead from any other player in the automobile business. In spite of tough competition from various domestic and foreign companies Maruti has maintained a dominant market share till now. Mr. Nakanashi was aware that competition in the compact car segment is expected to further intensify with more players launching compact cars. New players are consistently entering the market. Latest was Nissan which is launching *Micra*, its sub compact car in India. Maruti has to be cost effective and should offer competent products to remain competitive. There

⁹ Data Source: <http://www.rbi.gov/> (Last Accessed: 12 June 2010)

should be regular inflow of new brands or newer models of same existing brands in the market by Maruti. He was also trying to make a movement to make our planet green and in this way he was thinking of positioning MSIL. Maruti should concentrate on producing cars running on low cost fuel such as LPG and CNG and also it should foray into the world of Hybrid technology to make more environment friendly cars; he was planning. Low cost sedan and SUVs are the next highly demanding market in India. Like Indigo CS Maruti's Swift *Dzire* is the hottest selling model in this segment. Maruti should focus more on these types of cars in near future. Low cost SUV Tata's Sumo is also targeted to the cab segment. Maruti has no presence in that segment, alone *Vitara* cannot push up the sales as it is priced in the higher range. Also due to the cheap labor in Indian markets, Maruti should try to increase its exports of compact cars to gain hold over international markets.

While all these thoughts were going through his mind he called in for meeting key managers from production, operations, finance and sales department. Why the legacy MSIL was not able to sustain? Was unawareness of business environment or lack of knowledge of evolving Indian market caused this situation? Was there any stricter quality norms? Or production processes? Was there any incompatibility in senior management team after the complete takeover of MUL by Suzuki? Were the competitors becoming more powerful by tapping those market segments which MSIL overlooked? He entered the meeting to discuss all these questions in his mind.

Exhibit 1: Key Facts – Maruti Suzuki¹⁰

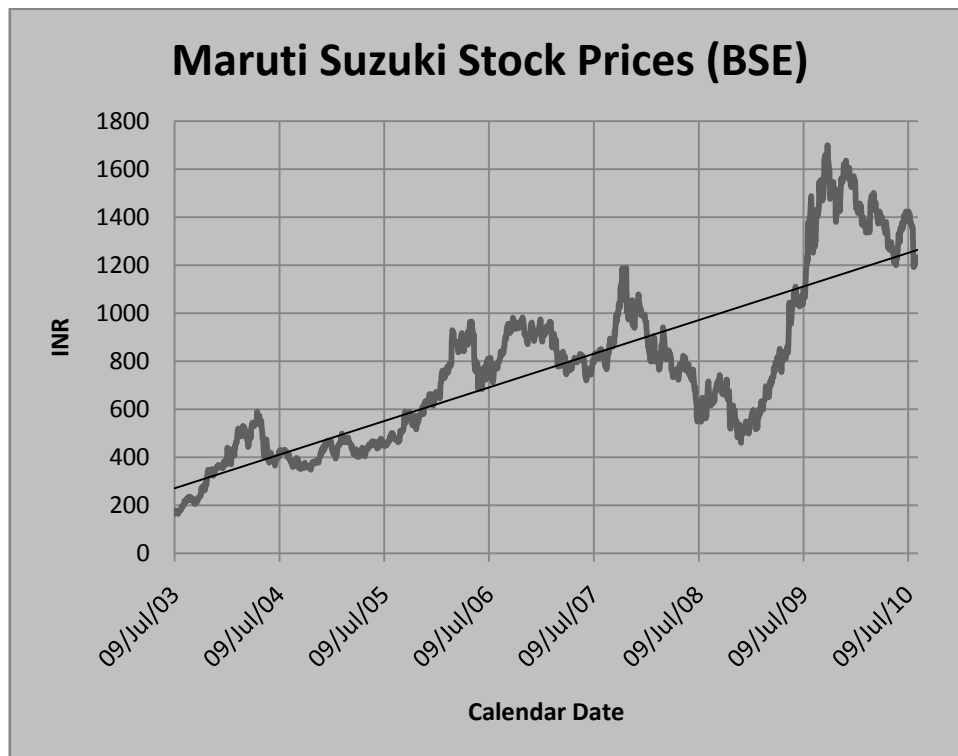
Head Office	Maruti Suzuki India Limited Nelson Mandela Road Vasant Kunj New Delhi 110070 IND
Phone	91 11 46781000
Fax	91 11 46150275
Web Address	http://www.marutisuzuki.com
Revenue / turnover (INR Mn)	301,225.1
Financial Year End	March
Employees	7,755
Bombay Stock Exchange Ticker	532500
National Stock Exchange of India Ticker	MARUTI

Old Logo of Maruti¹¹New Logo of Maruti Suzuki Limited¹²

¹⁰ Adapted From: Datamonitor, Maruti Suzuki India Limited – Company Profile, Publication Date – 19 May 2010

¹¹ Source: <http://www.answers.com/topic/maruti-udyog> (Last accessed on 13 August 2010)

¹² Source: <http://www.marutisuzuki.com> (Last accessed on 13 August 2010)

Exhibit 2: Maruti Suzuki Stock Prices on BSE (Bombay Stock Exchange)¹³¹⁴

¹³ Data Source: CMIE Database.

¹⁴ Stock Prices of Maruti Suzuki denotes the adjusted stock price of the company over the years. There was never a split of shares of the company. So Actual price = Adjusted price of Maruti Suzuki's stock.

Exhibit 3: Maruti Suzuki Consolidated Balance-Sheet Items¹⁵

Items/Year	Mar-00	Mar-01	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09
Assets										
Gross fixed assets	3734.1	4235.1	4457.1	4523.1	4641.6	5095.2	5046.6	6397.5	8021.6	9581.9
Land & building	232.2	238.9	252.1	250.5	269.2	432.2	460.9	608.7	729.6	818.4
Plant & machinery	3229.6	3581	4083.5	4214.9	4244.5	4563.1	4431.4	5467.6	6463.1	7792.4
Transport & comm. equipment/infrastructure	19.9	26.8	27.8	25.6	28.4	31.7	32.8	37.3	51.4	53.2
Furniture, amenities & other fixed assets	18.2	20	21.3	22.8	24.6	26.1	29.5	33.2	41.2	56.6
Capital work-in-progress	234.2	368.4	72.4	9.3	74.9	42.1	92	250.7	736.3	861.3
Less: Cumulative depreciation	1324.2	1619.6	1954.6	2258.1	2735.9	3179.4	3259.4	3487.1	3988.8	4649.8
Net fixed assets	2409.9	2615.5	2502.5	2265	1905.7	1915.8	1787.2	2910.4	4032.8	4932.1
Investments	397.4	95.5	96.8	103.2	1677.3	1516.6	2051.2	3409.2	5180.7	3173.3
Equity shares	76.6	70.5	70.6	86.9	85.3	90.6	136.3	153.9	328.1	395.6
Preference shares	85	10	0	0	7	6	5	5	5	5
Mutual funds	95.4	0	0	0	1586.8	1436.5	1925.4	3265.7	4865.6	2790.7
Debt instruments	150.4	25	25	16.3	7.5	0	0	0	0	0
Others	0	0	1.2	0	0	0	0	0	0	0
Less: Provision for diminution in value of investments	10	10	0	0	9.3	16.5	15.5	15.4	18	18
Group companies	0	0	0.1	0.1	85.3	90.6	136.3	153.9	328.1	395.6
Non-group companies	407.4	105.5	95.5	103.1	1601.3	1442.5	1930.4	3270.7	4870.6	2795.7
Market value of quoted investments	34.7	27.6	42.8	50.8	150.9	200.1	289.8	270.4	1314.1	1035.9
Deferred tax assets	0	0	0	231.7	125.5	125.4	121.1	110.1	99.6	78.9
Current assets	1977.4	2209.4	2074.4	2716.7	1941.8	2907.6	3513.3	4317.6	6513.9	8614.8
Cash & bank balance	31.7	87.6	71.9	989.4	240.2	1029.4	1401.6	1422.8	330.5	1939
Inventories	990.2	865.5	681.1	487	439.8	666.6	881.2	701.4	1038	902.3
Receivables	936.9	1256.3	1321.4	1240.3	1261.8	1211.6	1230.5	1622.5	1433.3	1630.2
Expenses paid in advance	18.6	0	0	0	0	0	0	570.9	3712.1	4143.3
Loans & advances	37.2	41.6	26.2	66.1	77.1	64.4	227.6	87.4	296.1	1019.6
Deferred revenue expenditure	52.3	58.7	119.2	88.7	16.3	0	0	0	0	0

¹⁵ Data Source: CMIE Database

Total assets	4874.2	5020.7	4819.1	5471.4	5743.7	6529.8	7700.4	10834.7	16123.1	17818.7
Liabilities										
Net worth	2912.1	2642.5	2707.3	3098	3591.2	4378.8	5452.6	6853.9	8415.4	9344.9
Authorised capital	135	135	135	155	155	155	155	372	372	372
Issued equity capital	132.3	132.3	132.3	144.5	144.5	144.5	144.5	144.5	144.5	144.5
Paid up equity capital (net of forfeited capital)	132.3	132.3	132.3	144.5	144.5	144.5	144.5	144.5	144.5	144.5
Reserves & surplus	2779.8	2510.2	2575	2953.5	3446.7	4234.3	5308.1	6709.4	8270.9	9200.4
Free Reserves	2778.3	2508.7	2555.9	2916.8	3394	4164.1	5292.3	6699.4	8270.9	9371.3
Security premium reserves (Net of deductions)	37.3	37.3	37.3	424.1	424.1	424.1	424.1	424.1	424.1	424.1
Other free reserves	2741	2471.4	2518.6	2492.7	2969.9	3740	4868.2	6275.3	7846.8	8947.2
Specific Reserves	1.5	1.5	19.1	36.7	52.7	70.2	15.8	10	0	-170.9
Total borrowings	578	1146.6	748.2	641.7	427.2	406.1	166.3	630.8	1259.2	753.8
Bank borrowings	578	846.6	448.2	341.7	127.2	106.1	96.3	23.3	758.9	120.9
Short term bank borrowings	578	706.7	448.2	341.7	127.2	106.1	96.3	23.3	758.9	120.9
Long term bank borrowings	0	139.9	0	0	0	0	0	0	0	0
Debentures / bonds	0	300	300	300	300	300	70	40	0	0
Convertible	0	0	0	0	0	0	0	0	0	0
Non-convertible	0	300	300	300	300	300	70	40	0	0
Fixed deposits	0	0	0	0	0	0	0	0	0	0
Foreign borrowings	0	0	0	0	0	0	0	567.3	500.2	632.8
Borrowings from corporate bodies	0	0	0	0	0	0	0	0.2	0.1	0.1
Secured borrowings	86.4	561.5	395.1	300	311.9	307.6	166.3	63.5	359.1	55
Unsecured borrowings	491.6	585.1	353.1	341.7	115.3	98.5	0	567.3	900.1	698.8
Current portion of long term debt	0	0	0	0	0	30	30	40.1	0	158.2
Current liabilities & provisions	1384.1	1231.6	1363.6	1292.9	1416.5	1509.5	1882.5	3072.4	6178.8	7486
Sundry creditors	443.8	376.8	477.5	321.1	405	463.7	555.1	909.6	1696.2	2569.6
Deposits & advances from customers & employees	299	246.9	201.2	224.3	225.3	225.4	257.2	223.7	216.4	310.9
Interest accrued	25.7	43.5	43.5	42.6	41.1	20.3	14.7	24.3	9.6	2.7
Other current liabilities	289.8	325	343.1	362.2	424.7	410.9	584.2	853.4	175	78.8
Provisions	325.8	239.4	298.3	342.7	320.4	389.2	471.3	1061.4	4081.6	4524

Deferred tax liability	0	0	0	438.8	308.8	235.4	199	277.6	269.7	234
Total liabilities	4874.2	5020.7	4819.1	5471.4	5743.7	6529.8	7700.4	10834.7	16123.1	17818.7
Net worth (net of reval & DRE)	2859.8	2583.8	2588.1	3009.3	3574.9	4378.8	5452.6	6853.9	8415.4	9344.9
Contingent liabilities	457.6	1371.1	2047.4	1541.4	1305.5	968.9	1081.8	1604.9	2649.4	2127.4

Exhibit 4: Product Portfolio of Maruti Suzuki (Segment – A1, A2, A3, B & C)¹⁶

A1 & Entry A2 Segment



A1< 3400mm (also in LPG) 796cc



A2 (3401-4000mm) 796 cc



A2 (3401-4000 mm) 1061cc



A2 (3401-4000 mm) 1061cc, in LPG also

Upper A2 or Premium Compact Segment



A2 (3401-4000 mm) 1298 cc in Petrol
1248cc in Diesel



A2 (3401-4000 mm) 998cc



A2 (3401-4000 mm) 1197 cc in Petrol
1248cc in Diesel

Sedan Segment



A3 (4001-4500mm)-1290cc in
Petrol & 1248cc in Diesel



A3 (4001-4500 mm)1598cc

¹⁶ Abstracted From: Maruti Suzuki Annual Analyst presentation
http://www.marutisuzuki.com/pdf/MarutiSuzuki_Citigrp_14june08.pdf (Last Accessed: 13-Aug-2010)

B (MUV Segment)



SUV segment 4 Wheel: 1300cc



SUV segment 4 Wheel: 2 liter

C (Van type vehicle Segment)

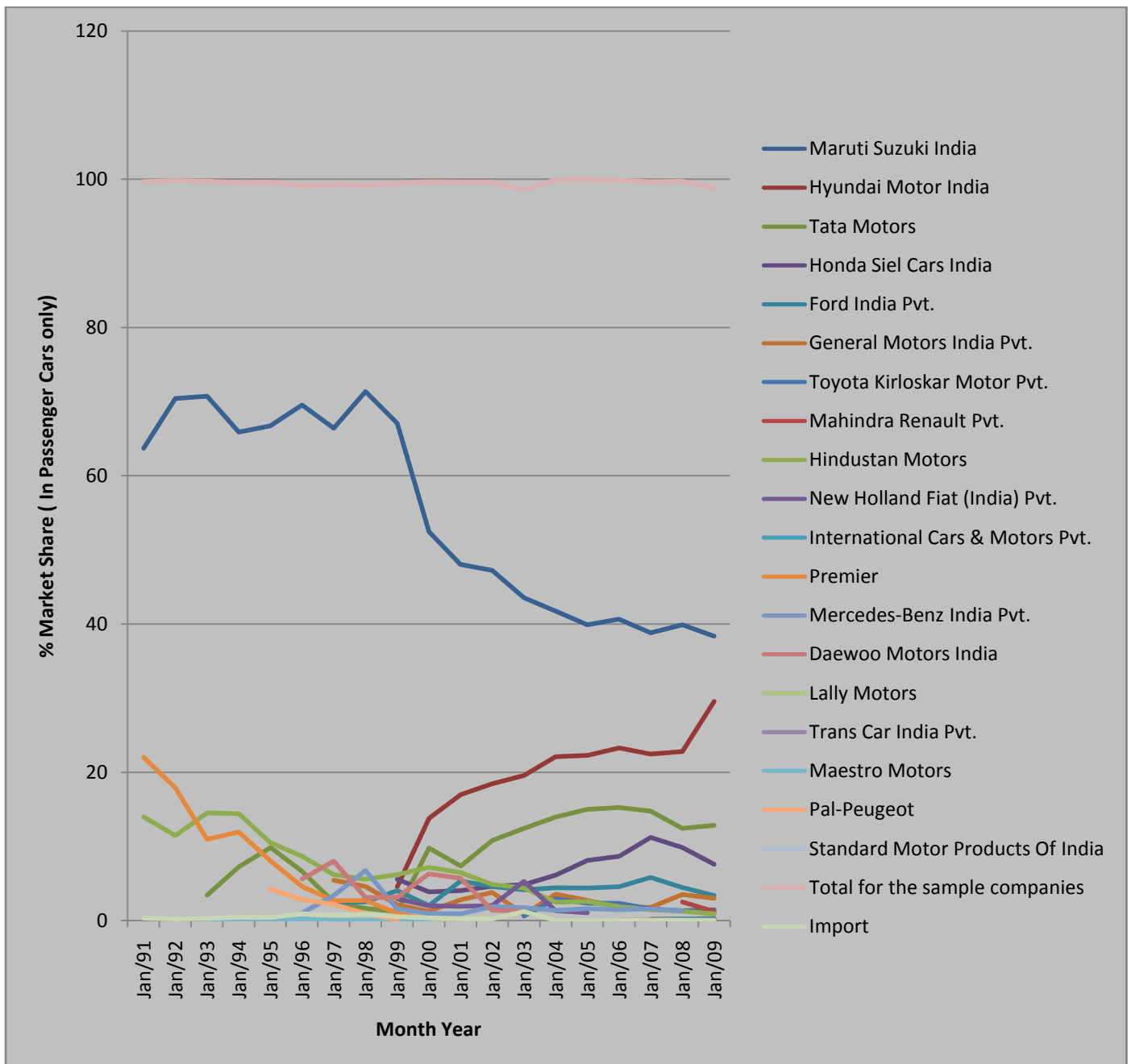


C-segment- Van Type 800 cc



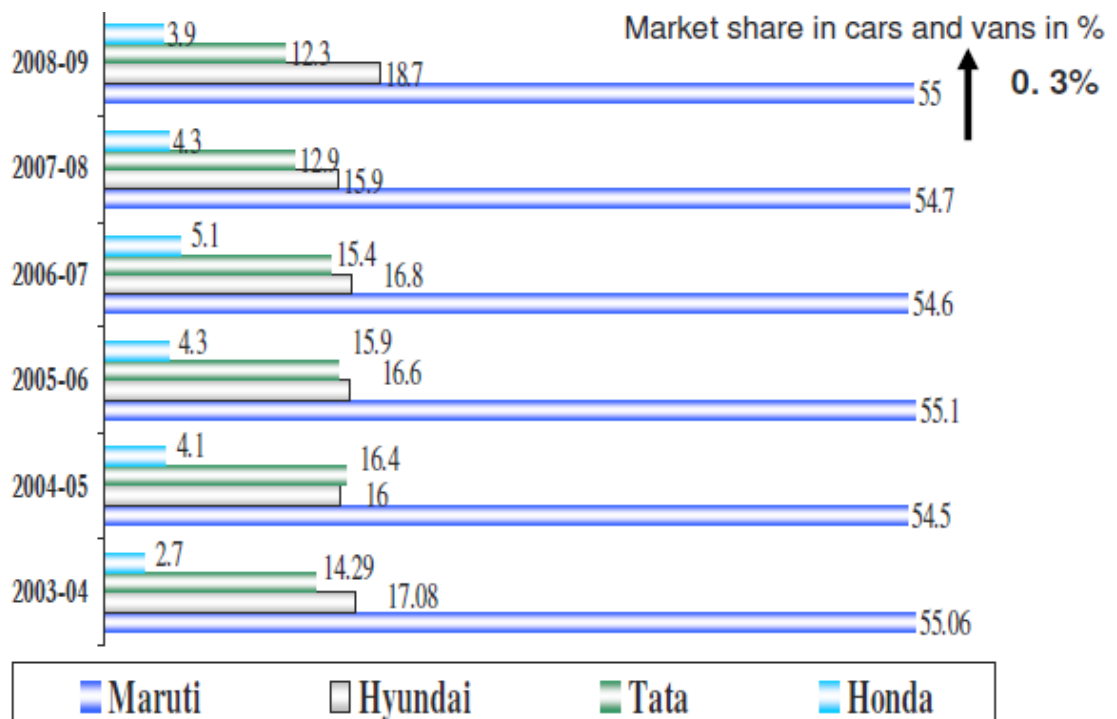
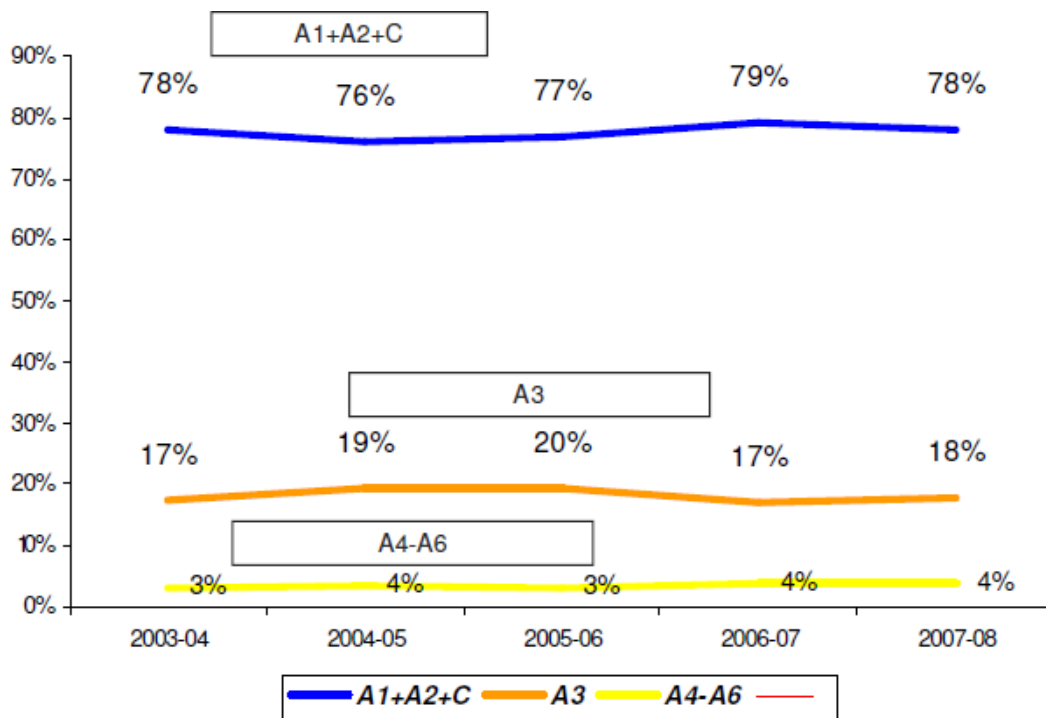
C-segment- Van Type 1300 cc

Exhibit 5: Market Share in Passenger Cars¹⁷



¹⁷ Data Source: CMIE Database

Exhibit 6: Share of Maruti Suzuki Across segments in the Indian Automobile Industry¹⁸



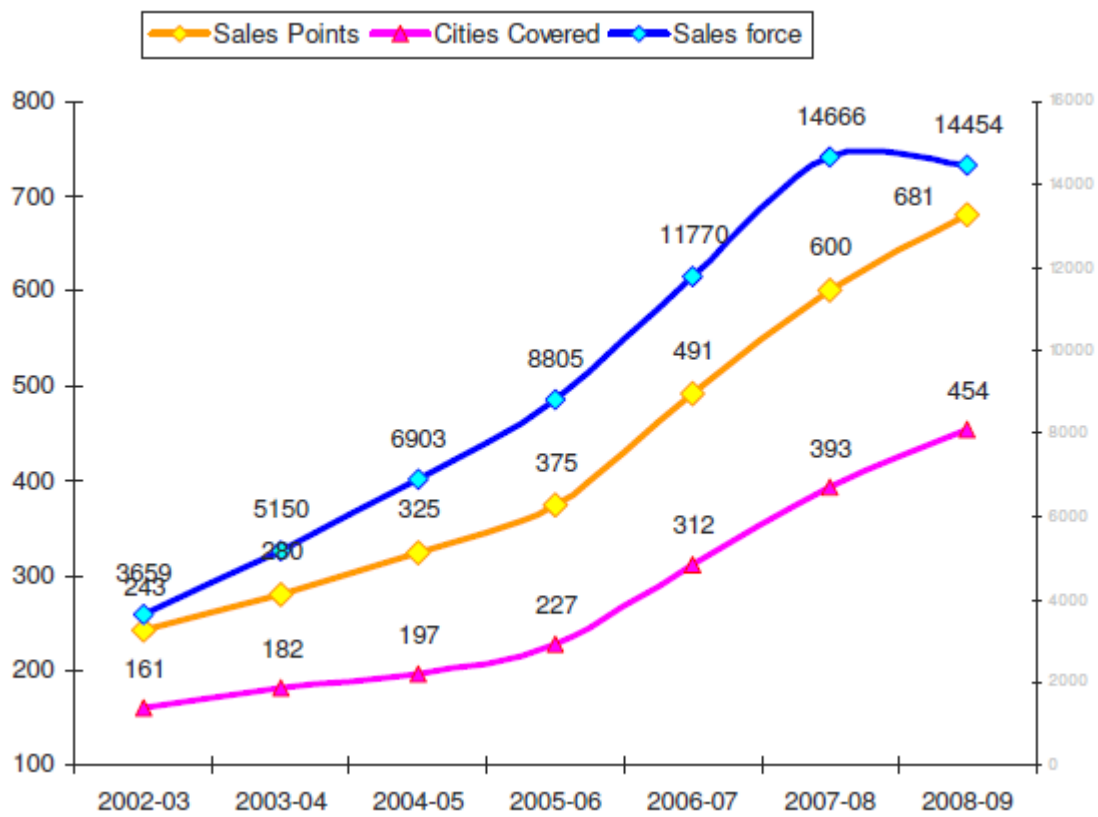
¹⁸ Abstracted From: Maruti Suzuki Annual Analyst presentation http://www.marutisuzuki.com/pdf/MarutiSuzuki_Citigrp_14june08.pdf (Last Accessed: 13-Aug-2010)

Exhibit 7: Key Employees¹⁹

Name	Job Title	Board
Shinzo Nakanishi	Managing Director and Chief Executive Officer	Executive Board
Tsuneo Ohashi	Managing Executive Officer, Production	Executive Board
Keiichi Asai	Director, Research and Development	Executive Board
Kenichi Ayukawa	Deputy Executive General Manager, Global Marketing	Executive Board
R. C. Bhargava	Chairman	Non Executive Board
Manvinder Singh Banga	Director	Non Executive Board
Amal Ganguli	Director	Non Executive Board
D. S. Brar	Director	Non Executive Board
Osamu Suzuki	Director	Non Executive Board
Shuji Oishi	Director	Non Executive Board
Pallavi Shroff	Director	Non Executive Board
S Ravi Aiyar	Company Secretary, Compliance Officer and Chief Legal Officer	Senior Management

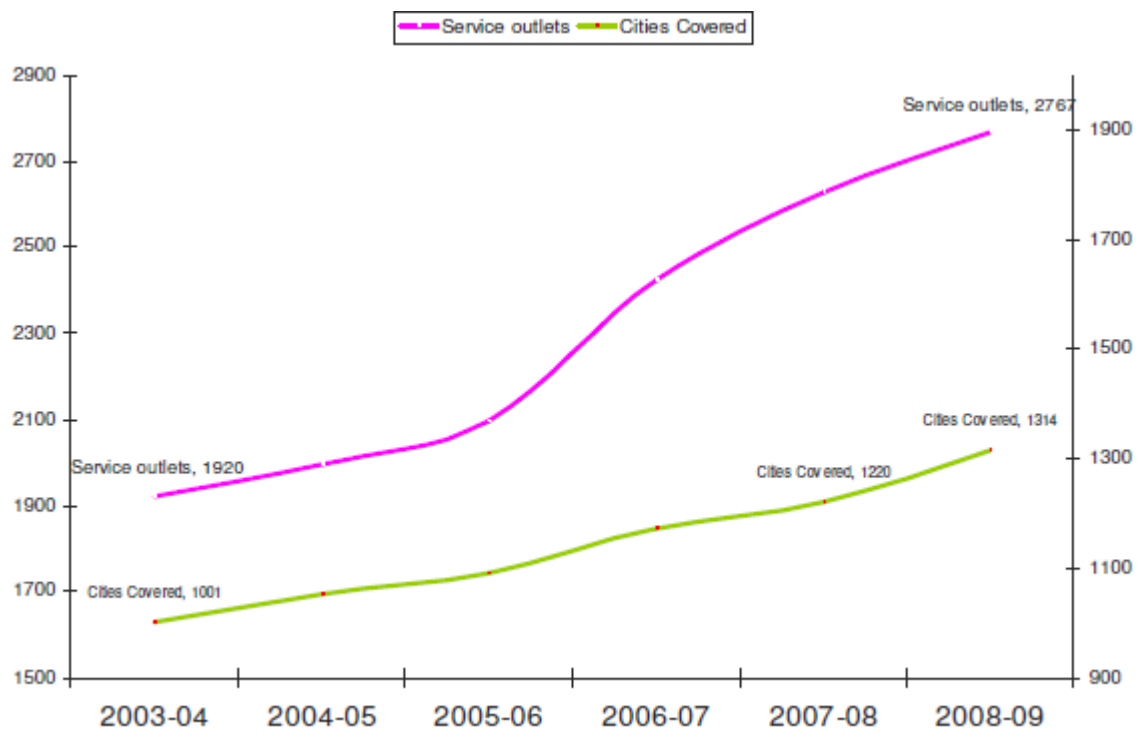
¹⁹ Adapted From: Datamonitor, Maruti Suzuki India Limited – Company Profile, Publication Date – 19 May 2010

Exhibit 8: Sales Network of Maruti Suzuki across India²⁰



²⁰ Abstracted From: Maruti Suzuki Annual Analyst presentation
http://www.marutisuzuki.com/pdf/MarutiSuzuki_Citigrp_14june08.pdf (Last Accessed: 13-Aug-2010)

Exhibit 9: Service Network of Maruti Suzuki across India²¹



²¹ Abstracted From: Maruti Suzuki Annual Analyst presentation http://www.marutisuzuki.com/pdf/MarutiSuzuki_Citigrp_14june08.pdf (Last Accessed: 13-Aug-2010)

Exhibit 10: Cumulative Export of Maruti Suzuki over the years²²



²² Abstracted From: Maruti Suzuki Annual Analyst presentation
http://www.marutisuzuki.com/pdf/MarutiSuzuki_Citigrp_14june08.pdf (Last Accessed: 13-Aug-2010)

Exhibit 11: Facilities of Maruti Suzuki in India²³

- **Gurgaon Facility:**
 - 300 acres
 - capacity 700,000 cars/ annum
 - Assembly plants 1,2,3
 - Engine plants F, G and new K series
- **Manesar Facility:**
 - 500 acres
 - capacity 300,000 cars/ annum
 - Assembly plant 4
- **Diesel Engine Joint venture – SPIL capacity 200,000 units/ annum**
- **Supplier's Park: 100 acres**

²³ Abstracted From: Maruti Suzuki Annual Analyst presentation
http://www.marutisuzuki.com/pdf/MarutiSuzuki_Citigrp_14june08.pdf (Last Accessed: 13-Aug-2010)

Exhibit 12: Customer Survey (JD Power Satisfaction: 2008)²⁴ and ²⁵



²⁴ For 9 years Maruti Suzuki has been the only player above the industry average

²⁵ Abstracted From: Maruti Suzuki Annual Analyst presentation

http://www.marutisuzuki.com/pdf/MarutiSuzuki_Citigrp_14june08.pdf (Last Accessed: 13-Aug-2010)

Exhibit 13: Locations and Subsidiaries – Maruti Suzuki²⁶**Head Office**

Maruti Suzuki India Limited
 Nelson Mandela Road
 Vasant Kunj
 New Delhi 110070
 IND
 P:91 11 46781000
 F:91 11 46150275
<http://www.marutisuzuki.com>

Other Locations and Subsidiaries

<p>Maruti Suzuki India Limited (Kolkatta Office) L & T Chamber 4th floor 16th Camac Street Kolkatta 700 017 West Bengal IND</p>	<p>Maruti Suzuki India Limited (Ranchi Office) 4th Floor Rohini Complex Opposite Hotel Apsara Circular Road Lalpur Ranchi Jharkhand IND</p>
<p>Maruti Suzuki India Limited (Guwahati Office) 403 Orion Towers Christan Basti Guwahati Assam IND</p>	<p>Maruti Suzuki India Limited (Indore Office) 3rd Floor Commerce House 7 Race Course Road Indore 452 001 Madhya Pradesh IND</p>
<p>Maruti Suzuki India Limited (Chandigarh Office) SCO 39 40 Sector 8 C Madhya Marg Chandigarh 160018 IND</p>	<p>Maruti Suzuki India Limited (Lucknow Office) B 1 Pick Up Bhawan Ground Floor Vibhuti Khand Gomti Nagar Lucknow 226010 Uttar Pradesh IND</p>

²⁶ Adapted From: Datamonitor, Maruti Suzuki India Limited – Company Profile, Publication Date – 19 May 2010

Maruti Suzuki India Limited (Chennai Office) 7th Floor Capital Towers 180 Kodambakkam High Road Nungambakkam Chennai 600 034 Tamil Nadu IND	Maruti Suzuki India Limited (Bangalore Office) 202 2nd Floor Embassy Classic Vittal Mallya Road Bangalore 560001 Karnataka IND
Maruti Suzuki India Limited (Mumbai Office) 602 Madhava Building Bandra Kurla Complex Bandra (East) Mumbai 400051 Maharashtra IND	Maruti Suzuki India Limited (Hyderabad Office) Mahavir Chambers Door Number 3 6 363 and 3 6 1/1 Chamber Bearing Number 101 and 102 1st Floor Liberty Square Stanza Himayatnagar Hyderabad Andhra Pradesh IND

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