

# Shift in gears of consumer behaviour for passenger cars

What exactly do car buyers want? - An important question that every car manufacturer has been pulling his hair out to answer. Understandably, the needs of car buyers vary according to the segment they are looking at. Empirically, the profitability for Original Equipment Manufacturers (OEMs) largely depends upon the consumer preferences. For OEMs to convert consumer satisfaction into brand loyalty and repeat purchase orders, it is paramount to understand consumer segment, their behaviour and sentiments in the contemporary auto market, specifically of passenger vehicles.

Does the car look good, is it loaded to the brim with technology and other features, is it high on practicality with ground clearance, safety, space and interiors, mileage and above all the price tag and the segment it is in, are factors considered by a consumer. Differentiating purchases between a hatchback, sedan, 4x4s, sports utility vehicle (SUV), multi-purpose vehicle (MPV) and luxury cars are based on their needs and requirement and on the benefits being offered such as cash discount, exchange bonus, free extended warranty, lower insurance premium and so on.

Aftersales service cost, dealership experience, resale value and family requirements are other important factors impacting consumer's preferences.

Increasing awareness and promotion of new features across segments through the use of social media and other means has made consumers prioritise their preferences while making a choice. The knowledgeable consumer does not follow the "pinch of salt" approach and is not misled by advertisements and claims of sales teams.

The impact of the digitisation is becoming pervasive, disrupting the traditional car-buying experience and the competitive landscape. Thus, the measure of behaviour of consumer of current generation has become difficult to gauge as time tested marketing concepts have failed.

**Profitability for OEMs largely depends upon the consumer preferences**

**Consumers' purchase decisions depend on their needs and requirements**

**The lure of off-roaders remain high on account**

**Hatchbacks rule the growing car market share**

**Sales of MPVs have nosedived**

**OEMs of luxury cars face challenges**

## Views on segments and markets

### There is cumulative growth in sales

With the exquisite palate of car options growing day-by-day, automakers are flooding the market with models in every segment. As per The Society of Indian Automobile Manufacturers (SIAM), this fiscal 2016-17, the cumulative sales growth of all passenger vehicles in the domestic market were 112,539 units, up 17 percent compared to 95,979 units in last fiscal.

### SUVs have become the favourite

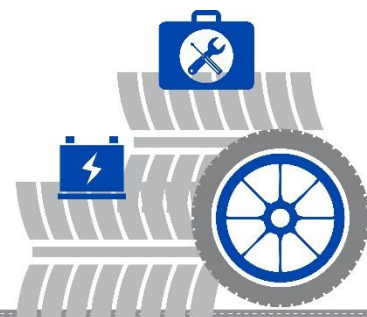
Consistent with the current preferences and lifestyle, one of every four cars sold in India is an off-roader. The SUV category is attracting buyers even from sedans and MPVs as they are available at the same price as a C-segment sedan. Though the increased sales of hatchback and sedan is evident from the top 10 selling cars in the country, the lure of off-roaders remain high on account of the features often associated with the segment.

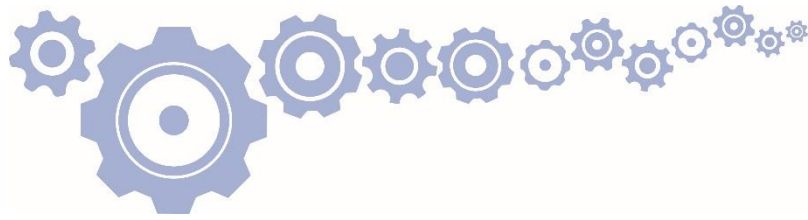
High ground clearance, relatively-powerful engines and the masculine attire and the strength associated with the vehicles

have managed to pull sales volumes. The sales have more than doubled over the last five years. They come with better safety features, more space as compared to any other vehicle segment, both in seating and luggage space.

However, SUVs with more than four meters in length or engine capacity of more than 1500cc or with ground clearance of 170mm attract an extra excise duty of 30 percent.

This increases the on road price of the SUV and impact the customer preferences with respect to their buying decision. Maruti Vitara Brezza, Hyundai Creta, Ford Ecosport, Mahindra Scorpio are leading SUVs in the domestic market which have pushed up sales with Honda BR-V making its mark in top 10 with sales of 1,601 units in December 2016. The Maruti Suzuki Vitara Brezza was adjudged the Indian car of the year (ICOTY Award) for 2017.





## Views on segments and markets (contd.)

### Youth continues to drive sale of SUVs

The rationale of growth of SUVs is the driving comfort in the metropolitan areas along with the strong push from the youth segment on the sale of cars in the country. It is for this reason, carmakers continue to go back to this segment for more support and sales push. The present day youth continues to desire for opulence and priced possessions. And SUVs fit the requirement because of their high end features and safety standards. Thus, the purchase decision by teenagers over an SUV is more than just a financial decision and is driven primarily by their passion to own such a vehicle.

### Compact sedans are also in demand

Apart from the recently developed inclination towards SUVs among consumers, their penchant for the three-box cars is also evident as they are quieter in terms of road noise and have more layers of isolation between the rear wheels and the cabin. Some sedans look more aesthetically pleasing than their hatchback counterparts and provide the upmarket feel. Maruti Suzuki's Swift Dzire is one of the good compact sedans in the market and is one car which justifies the predisposition towards Maruti cars. Ford Figo Aspire, Hyundai Xcent and Volkswagen Ameo were also the sought after compact sedans of 2016. For Honda Cars India, the Amaze sedan was the best-seller with 3,322 units, followed by the City with 2,898 units in December 2016. One of the chief reasons behind compact sedans becoming popular is their smaller tax bracket. Sub-4 meter cars are subject to only 12.5% excise duty as compared to 24% on larger cars having the same engine capacity of less than 1500cc or 1.5L.

### Hatchbacks command significant share

Hatchbacks, with 55% market share, are preferred by families as their resale value is better than larger cars. The sales growth for Tata Motors is attributed to growing consumer demand for the Tiago hatchback during December 2016 in tough competition with Maruti Suzuki Alto K10, Ford Figo, Hyundai Grand i10 and Datsun Redigo. A great customer response to the Datsun Redigo Sport of the Nissan Motor India Group was reported in December 2016 and the carmaker for combined Nissan and Datsun sales have registered 50 percent YoY growth for the first three-quarters of the fiscal year 2016. In the entry Hatchback segment, Tata Nano and Renault Kwid had best ground clearance.

### Sales of MPVs have nosedived

Sales of MPVs, which had caught the fancy of Indian consumers with their mix of price and utility, have nosedived

as prospective buyers lean towards the bevy of SUVs. Honda's Mobilio MPV, which was popular for its looks, saw a 74% decline in FY16 sales to about 8,000 units. In a car market that grew 7 percent in FY16, the MPV segment posted a decline of 17 percent, as against 10 percent growth in the mid-size sports utility vehicle space and about 60 percent growth in sub four metre SUVs.

The preferences for SUVs in the passenger vehicle segment is the trend which also makes the OEMs of luxury cars to face challenges to make it in the top 10 numbers of the year. Luxury Brands are under tremendous pressure and the segment literally has taken a beating, first with the Tax Collected from Source (TCS) and now government's policy of scrutinising every luxury car purchase (after demonetisation). The buyers in the segment are literally scared to finalise their purchase.

### The way ahead

For that reason, small cars, hatchback, sedan, an SUV, an MPV or a luxury car; all have pros and cons. The choice is up to the consumer to make a fair and preferable purchase decision. Having expanded at a brisk pace in recent years to touch an annual output of 2.78 million units of passenger cars; as per SIAM, the Indian car industry is all set for its busiest ever period of new launches. It is estimated that umpteen new models or variants of existing models would be launched over this year out of which at least 10 products are to be launched in the SUV market.

As we move ahead in the year, we believe that automakers would continue to identify profitable product niches, offer improved customer experience (digital and in person), invest in localisation, and create flexible production capacity and supply chains to be able to quickly respond to changes in the demand mix and regulatory environment. OEMs need to stress on the enumeration of consumer preference for successful decisions on product designs, branding and distribution and focus on predicting it to an extent with the consumer research activity which is indispensable to satisfy the consumers in the long run.

We do hope that the implementation of GST will provide a veritable boost to the auto industry and the economy in general. It is believed that the same is coupled with stable fuel prices and reduced inflation and interest rates, that will fuel the automotive industry's growth going forward.