

Attitude of Customers' towards Purchasing a Low Cost Small Cars in India

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Abstract : The automotive sector of India is amongst the largest and fastest growing manufacturing sectors. The small car segment has attracted the most attention and investment since the car industry was thrown open to competition in the late 1990s. With Tata Motors unveiling of a low-cost, very small car, automakers from Europe and the U.S. are poised to jump into the market. The study is based on an empirical work and a convenience sample of 151 respondents has been taken. An effort was made to examine attitudes toward purchasing low cost small cars as well as the determining the factors which enhance and hinder the purchase decision. The findings indicated that people have positive attitude towards purchasing low cost cars and there were no significant differences in attitude of respondents due to the region (urban & sub-urban) in which they dwell, but age and income variable indicated a significant association.

INTRODUCTION

India is experiencing a quiet revolution in the automotive industry. During 2006-2011, India would become the fastest growing automobile manufacturer amongst the top 20 car making countries of the world, as per a New York based accounting company Price Waterhouse Coopers LLP (cited in Singh and Krishnamurthy, 2007). Car sales in India are growing by more than 20 percent a year, compared with 3 percent globally, and first-time buyers in India are eager for cheap compact cars (Timmons, H., 2008). According to Robert Bosch, a German firm that is the world's largest supplier of automotive components, between now and 2010, globally the small car market will grow at 5% p.a. which is twice the rate of growth of the industry as a whole (Edmondson G., 2007).

India is set to lead the low-cost vehicle revolution and is likely to grab the top slot in both low-cost vehicles sales and production. With rising income, affordable price, lower ownership cost, increased buyer incentive as well as fascinating funding packages in India would continue to support its passenger car market demand, with car sales growth averaging about 12.9% yearly between 2007-08 and 11.6% in 2009-10 (RNCOS' report, 2006). By 2014, the year by which this segment is expected to develop substantially, India's share of the

estimated annual production of about 3.5 to 3.7 million low-cost vehicles is projected to be nearly 34% (Verma, M., 2007). Several international and indigenous automakers have recently announced plans to make a small car specifically for India inspired in part by Tata Motors' impending introduction of a \$2,500 car. General Motors Corp., Volkswagen AG, Honda Motor Co. and few other companies are planning to spend no less than US\$ 6.6 Billion on new plants to benefit from the country's auto desire. Fiat SpA, Renault SA, Nissan Motor Co. as well as others are connecting with local producers. Despite impressive growth, automobile penetration rate is still low in India. As India is an economically growing country, there exists a huge untapped growth potential for the automobile manufacturers. Every one is gambling in a country where among 1,000 people only 7 possess a car in contrast with 450 for every 1,000 in US and 500 for every 1,000 in Western Europe (Singh and Krishnamurthy, 2007). Carmakers around the globe are keen to win the growing market of consumers who are about to purchase their first low-priced car. Indigenous carmakers are off to a good start. Not only are they churning out vehicles cheaply but with improved quality. The world's automakers, after years of making their mass-market cars more expensive, have unexpectedly altered into reverse. With stagnant

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growth in the U.S., Europe, and Japan, they are now musing on emerging markets for new opportunities, which mean redesigning the car for buyers who might otherwise be able to afford only a motorcycle. In the two wheeler segment, motorcycle is the coveted choice with prices varying from Rs. 30,000 to Rs. 75,000 and here exists a gap. With the changing lifestyle and growing disposable income of the Indian middle class, there is a growing penchant towards individual mobility; however there is no offering from any automobile manufacturer in the price range Rs. 75,000 to Rs. 2.2 lakh. Tata's Motors 'Nano'- the Rs 1 lakh car seems to fill this gap and this has left other automobile manufacturers pondering on the possibility of offering low cost four wheelers. Demand is surging for basic cars that combine modern comfort with safety at a fraction of today's cost. Low-cost cars are "the single most important trend in the automotive industry today," says Vikas Tibrewala, the Paris-based executive director of the Monitor Group consultancy (BusinessWeek, 2007). According to a study on American and German automotive practices from Roland Berger Strategy Consultants (2006), it has

been estimated that the number of cars under EUR10,000 will approach 18 million units by 2012. Growing by four million units in the next six years, the low cost car segment will be far more dynamic than the overall global automotive market. The A-/B-segment is growing worldwide, mostly at a faster pace than the industry average (as shown in Exhibit I).

The Roland Berger study also mentioned that the waves of first-time car owners in India and China are hitting the market, as consumers in these countries become wealthier. With rising consumer buying power, up to 1.6 million motorcycle owners will become first-time car buyers by 2012, mainly entering the small car segments. The Indian middle class is also estimated to expand from its current size of 50 million to 583 million by 2025, according to the consultancy firm McKinsey (2007). According to J.D. Power Automotive Forecasting India's auto market is set to double to 3.3 million cars by 2014, while China's will grow 140% over the same period, to 16.5 million cars (BusinessWeek, 2007). At present low cost passenger cars in the EUR 5000 segment are mainly produced in India and China (Exhibit II).

The A-/B-segment is growing worldwide, mostly at a faster pace than the industry average

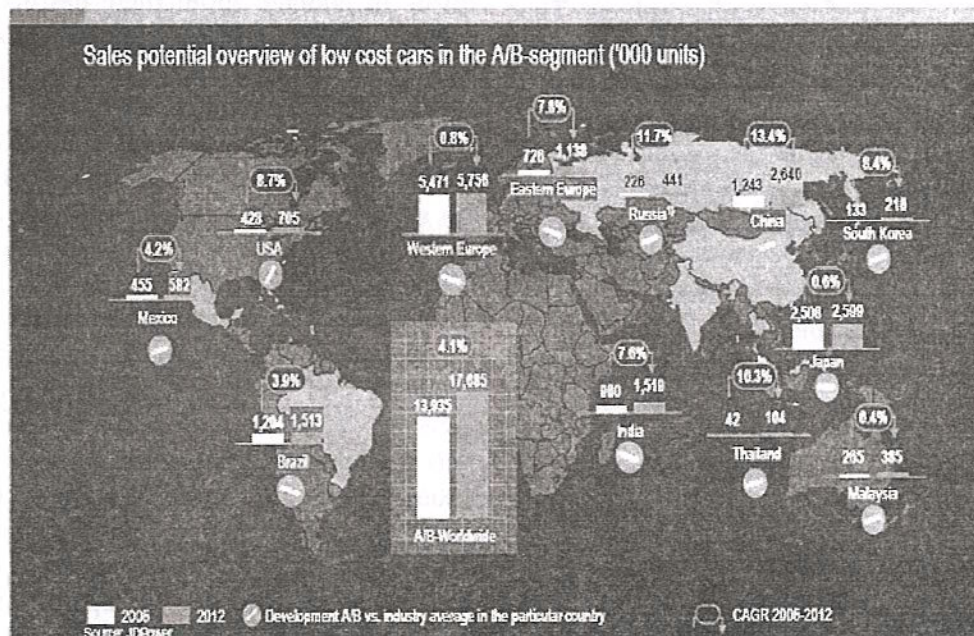


Exhibit I

Current low cost passenger cars in the EUR 5,000 segment are mainly produced in China and India

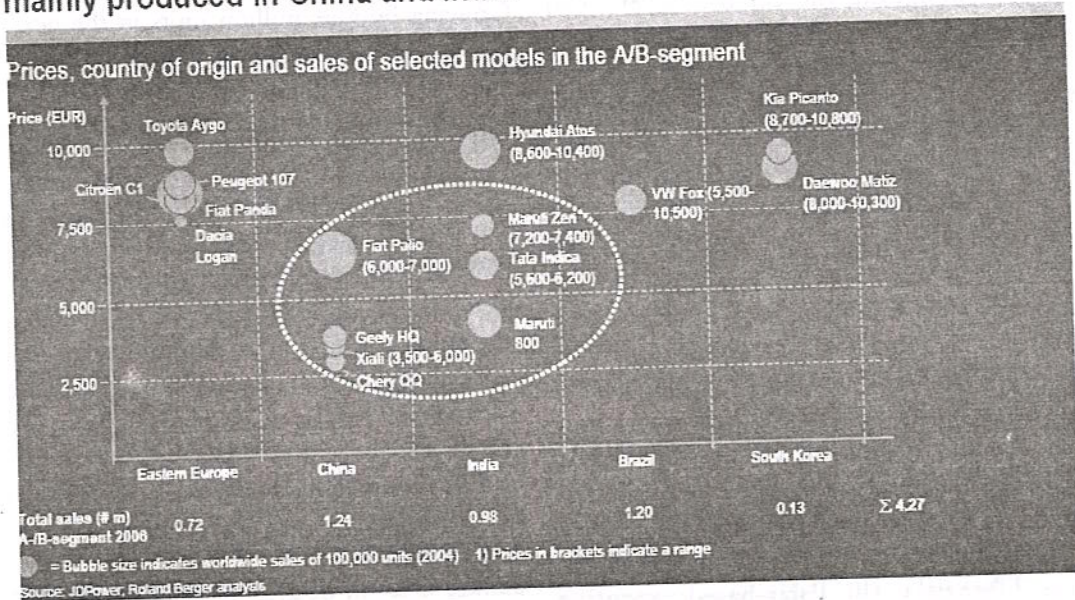


Exhibit II

In India, it's the small car segment that has attracted the most attention and investment since the car industry was thrown open to competition in the late 1990s. Prior to that the Indian car market was dominated by Maruti only which launched its small car Maruti 800 in the year 1984, and it became the first choice of most of the families in India. This was followed by South Korean company Hyundai which launched Santro in 1998, and then another Korean automaker Daewoo which introduced Matiz in India. By the year 1999 the Tata group launched their first car Indica. Italian company Fiat also stepped into the small car market with the launch of Palio. After General Motors over took Daewoo, General Motors India entered the small car market with the launch of Chevrolet Spark. With a 100% FDI allowance in Indian auto industry in 2002 the India market was made attractive and easily accessible for the global players. Japanese, Korean, European, and American OEMs entered the Indian market and added more than 1 Million four-wheelers during 2005-06. With the emerging new trends in automobile sector for low cost small cars, few players are looking to introduce very low cost cars to attract bike owners. This is a huge untapped market of India where a car still seems as a status symbol. A few Indian players and some global giants are planning to

introduce a new car within range of Rs. 1-2 lakhs. It has been estimated by A. T. Kearney, an international management consulting firm, that a car with a \$3,000 list price could attract 300 million buyers in India by 2020 (cited in Timmons, 2007). But, with the unveiling of Tata Motors' new offering 'Nano' in January 2008, there has been a lot of interest among industry majors, although, the commercial launch of the 'Nano' is slated for the second-half of 2008. Renault-Nissan with India's Bajaj Auto and Toyota have also announced plans to build small cars. German carmaker Volkswagen is also said to have plans for a two-door, rear-engine car. Maruti-Suzuki also seems to be in the process of making a competing product (Kumar, Nirbhay, Dec. 2007). Tata Motors' Rs 1-lakh car has been greeted with a great deal of skepticism, both, at home and abroad. If the Tata Rs 1-lakh car is commercially successful, it will alter the passenger car market in India beyond description. According to J D Power (2006), entry of a Rs one lakh car in the Indian market, being developed by the Tatas, would lead to a "structural shift" in the dynamics of the Indian automobile industry and is capable of having a "tsunami-like" effect. The present study is done in order to find out the attitude of people towards low cost cars (cars in the range of Rs. 1lac -2 lacs) as well

as the expectation of the market from these cars.

RESEARCH METHODOLOGY

RESEARCH PROBLEMS

This study examines respondents' attitudes towards low cost cars in Delhi and NCR. Specifically, the study seeks to answer the following major research questions:

- Q1. Do people prefer to purchase low cost small car?
- Q2. Does respondents' attitude towards low cost cars, vary among different demographic variables (age, income, and region)?
- Q3. What factors enhance or hinder buyers' decision to purchase a low cost car?

The second research question will be answered through examining the following three null hypotheses:

H1: There is no statistical difference in consumers' attitudes towards buying decision of low cost car due to age.

H2: There is no statistical difference in consumers' attitudes towards buying decision of low cost car due to income.

H3: There is no statistical difference in consumers' attitudes towards buying decision of low cost car due to region (urban or sub-urban) in which the buyer dwells.

RESEARCH OBJECTIVES

The objectives of this study are:

- To study the respondents' preference for a low cost car.
- To examine the impact of demographic variables on respondents' attitude towards purchasing a low cost car.
- To study respondents' opinion on indigenous and foreign made cars in low cost category.
- To analyse the various factors that enhance the buying decision of a low cost car.
- To analyse the various factors that weakens the decision of a person to buy a low cost car.

RESEARCH TOOL

The data for this study was collected by means of a self-administered questionnaire containing two sections. These questionnaires were administered to 180 respondents (70 personally administered in Delhi and NCR and the rest 110 were sent through mail to various cities). Out of 180, only 151 respondents' data was valid. Convenience samples were drawn from Delhi and NCR (National Capital Region) region. Our definition of convenience samples includes only one dimension that is easy access to the sample units, other wise it was random selection of individuals from a large number of customers at the various malls. Firstly, demographic characteristics of respondents were investigated and then various factors influencing purchase of low cost cars were considered. The demographic characteristics of respondents are as given in Table 1.

Table 1 Demographic profile of the respondents

Variables	Level	Number
Gender	Male	115
	Female	36
Marital Status	Married	39
	Single	111
	Divorced	1
Region	Urban	78
	Sub-urban	73
Income	Less than Rs. 1.5 lakh	52
	Between Rs. 1.5 lakh and Rs. 4 lakh	57
	More than Rs. 4 lakh	42
Occupation	Self employed	18
	Private salaried	69
	Government salaried	16
	Student	48
Education	Up to high school	6
	Intermediate	9
	Graduate	94
	PG and above	42
Age	Between 18 & 23 years	42
	Between 23 & 27 years	39
	Between 27 & 35 years	34
	Above 35 years	36

The questionnaire consisted consists of two sections. To test the hypotheses, data was collected from the first section of the questionnaire which contained information on demographic variables of the respondents (sex, age group, income groups, profession and city). To examine the differences in consumers' attitude towards purchasing of low cost cars due to demographic variables (age, income and region), chi square test was used.

DATA ANALYSIS

Modes of traveling preferred by respondents

The data analysis show that 45% respondents preferred to travel by their own car followed by two-wheeler (30.30%). Rest preferred to travel by city transport and office cabs. As the majority of people prefer to travel by car so we can infer that low cost car may also be preferred.

Comparison of an indigenous car with a foreign made car.

Majority of Respondents were nearly equally divided in the opinion that Indian cars are either equally competent (32.05%) or less competent (34.61%) than foreign cars ,but only few of them (10.25%) are of opinion that Indian cars are more competent than foreign cars. This data shows that if a company wants to launch a car in the low cost segment then it should try to collaborate with some foreign firm to gain the confidence of the customers.

Respondents' preference for the engine power of a car

This data analysis reveals that majority of the respondents are not inclined to buy a car if its engine power is less than 800cc which is a benchmark for small segment cars set by Maruti 800. So, the car maker should take this into consideration while designing such a car.

Preference for buying a low cost car

The analysis of data shows that 54.5% of the respondents have indicated positive attitude towards purchasing a low cost car. To examine the second objective of the study, the first step in data analysis was to calculate chi square values and then to examine differences, if any, in consumers' attitudes towards purchasing a low cost car due to demographic variables (age, income and city).

Age

The first hypothesis (H1) states that "there is

no statistical difference in consumers' attitudes towards purchasing low cost cars due to age ($\alpha \leq 0.05$)". To assess this hypothesis, χ^2 value was calculated to find out whether there exists any association between attitude towards purchasing low cost car and age of the respondents. The calculated value of χ^2 was 12.57 while the table value of χ^2 at 3 df was 7.82. As the calculated value is more than critical value, this means that we can reject the null hypothesis (H1). It shows that there exists statistically significant difference in consumers' attitudes towards purchasing low cost car due to age. This suggests that respondents in different age groups demonstrated different attitudes towards purchasing low cost cars.

Income

The second hypothesis (H2) states that "there is no statistical difference in consumer attitudes towards purchasing a low cost car due to income ($\alpha \leq 0.05$)". To assess this hypothesis, χ^2 value was calculated, which was 9.37. On comparing this with the table value of χ^2 at 2 df (which was 5.99), we found that the calculated value is more than critical value. This means that we cannot accept the null hypothesis (H2). It shows that there exists statistically significant difference in consumer attitudes towards purchasing low cost car due to income.

Region

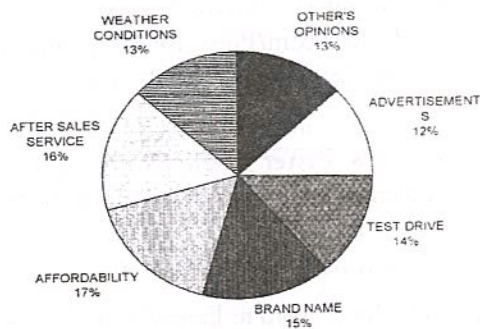
The last hypothesis (H3) states that "there is no statistical difference in consumers' attitudes towards purchasing in different regions (i.e. urban and semi-urban) ($\alpha \leq 0.05$)". To assess this hypothesis, χ^2 value was calculated which was .948 while the table value of χ^2 at 1 df was 3.84. As the calculated value is less than critical value, this means that we can accept the null hypothesis (H3). It shows that there is no statistically significant difference in consumers' attitudes towards purchasing low cost car in urban or semi-urban areas. Thus, the respondents in urban or semi-urban areas were likely to be similar in terms of their attitudes towards purchasing low cost cars.

Factors which influence the buying decision of low cost small car

Respondents were asked to give weightage to various factors which influence their buying decision for purchasing a low cost car. This was measured by five point Likert scale of importance

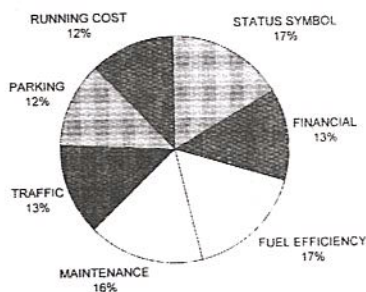
(running from very important to least important). The higher the score given by respondents, the more importance of that factor was indicated. The factors considered were opinion of friends / relatives, advertisements, test drive, brand name, affordability, after sales Services, and weather Conditions. The data analysis indicates the factors which influence customers the most in buying low cost car are affordability and after sale service while the one which are less important are test drive and opinion of friends and relatives.

The distribution of these factors confirming the same, is depicted in the pie graph representation below.



Factors which hinder the buying decision of low cost car

Respondents were asked to give weightage to various factors which hinder them to purchase a low cost car. This measured by five point Likert scale of importance (running from very important to least important). The higher the score given by respondents, the more importance of that factor was indicated. The factors considered were status symbol, financial problem, fuel efficiency, maintenance, traffic congestion/ pollution, parking problem, and running cost. The factors which weaken the most are fuel efficiency and status symbol while the one which affect less are parking problem and running cost. The distribution of these factors confirming the same is depicted in the pie graph representation below.



CONCLUSIONS

This exploratory study was conducted to understand the attitude of customers towards low cost cars in the Indian market. The study also focused on examining the various factors which enhance and hinder the buyers to purchase a low cost car. The conclusions of the study with respect to the objectives are as follows:

- In general, the demand of low cost cars in Indian market is overwhelming, as 54.5% respondents indicated a positive attitude towards low cost cars.
- The second objective of the study was to examine the impact of demographic variables on respondents altitude towards purchasing a low cost car. The analysis shows that there were no significant differences in attitude of respondents due to the region (urban & sub-urban) in which they dwell, but there was exception of age and income variable and these two variables have indicated a significant association. Thus, it can be concluded that the buying decision of a low cost car is dependent on age and income of the respondents.
- Respondents are nearly equally divided in the opinion that Indian cars are either equally competent (32.05%) or less competent (34.61%) than foreign cars, but only few of them (10.25%) are of opinion that Indian cars are more competent than foreign cars.
- The factors which influence to the customers the most, for buying a low cost car are affordability and after sale service while the one which are less important are test drive and opinion of friends and relatives.
- The factors which weaken the decision of customers for buying a low cost car the most are fuel efficiency and status symbol while the one which do not hinder much are parking problem, running cost and traffic congestion.

Based on the primary and secondary data findings, it can be concluded that the Indian car market is booming and over 75% of this growth is attributed to the small cars even as the demand and market for medium size cars is growing. The Indian middle class is also estimated to expand from

its current size of 50 million to 583 million by 2025, according to the consultancy firm McKinsey. Also, the global consultancy firm Roland Berger estimates that by 2010 an additional 30 million households will be able to buy a car. Small cars and downsizing have begun to find favour to achieve greater fuel efficiency in a world increasingly threatened by energy insecurity and global warming, because they are more energy efficient than oil-guzzling SUVs. The main concern about the new small car is abnormally low prices linked to what is on offer in terms of Emissions performance, Durability and Safety. India is being seen as a hub for low-cost cars with major markets in West Asia, Southeast Asia and Africa. Although, low-cost small cars present big dilemmas but still these cars are capable of bringing structural shift in the dynamics of the Indian auto market.

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