PEST Factors Affecting SMEs automobile Industry in India

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Abstract

This paper presents PEST (Political, Economical, Social & Technical) factors affecting SMEs automobile industry in India. The SMEs automobile sector of India is one of the largest in the world and accounts for over 7.1% of India’s gross domestic product (GDP). It also contributes to nearly 22% of the country’s manufacturing GDP. The sector was first opened to foreign direct investment (FDI) in the year 1991 during the liberalization of the Indian economy and has come a long way since. The $118 billion SMEs automobile industry is expected to reach $300 billion by 2026. India's annual production has been 29.08 million vehicles in 2018 against 25.33 million in 2017, registering a healthy growth of 14.8%. India is expected to emerge as the world's third-largest passenger vehicle market by 2021. This study focuses on impact of Indian SMEs automobile Industry and SWOT analysis to be done.

Key Words: PEST, SMEs automobile & Industry
Introduction

The industry produced a total of 23,960,940 vehicles in April-March 2015 as against 23,358,047 in April-March 2014, registering a growth of 2.58% over the same period last year. The country is also currently the 6th largest market in the world for SMEs automobiles and is expected to become the world's third-biggest car market by the year 2020. As per the Automotive Components Manufacturers Association of India (ACMA), the world standings for the Indian SMEs automobile sector are as follows:

- Largest tractor manufacturer
- 2nd largest two wheeler manufacturer
- 2nd largest bus manufacturer
- 5th largest heavy truck manufacturer
- 6th largest car manufacturer
- 8th largest commercial vehicle manufacturer

Today, 100% FDI is allowed in the sector through the automatic approval route which means that foreign investors do not require the prior authorization of the Government of India. The impact of this decision can be seen in the data released by Department of Industrial Policy and Promotion (DIPP) which states that the industry has attracted FDI worth USD 15.065 billion during the period April 2000 to March 2016.
Present Scenario

Thus, it can be reasonably concluded that India has emerged as one of the key global players (both as a consumer and a producer) in the SMEs automobile industry. It has witnessed tremendous growth, especially in the last few years and has become a base for global manufacturers. Volkswagen, Nissan, Renault, General Motors, Ford, Honda, Suzuki, Hyundai, Daimler, BMW, Skoda, Audi are all present in India and are manufacturing and assembling locally. Mercedes-Benz recently decided to make the entry level GLA-class Sport Utility Vehicle (SUV) in India. Japanese two-wheeler manufacturer Honda Motorcycle and Scooter India (HMSI) opened its 4th and world’s largest scooter plant in Gujarat while Chrysler has planned to invest USD 513.5 million in Maharashtra, to manufacture Jeep Grand Cherokee model.

NEW INITIATIVES & VISION FOR THE FUTURE

The Automotive Mission Plan 2016-26 (AMP 2026) is one such initiative. It clearly lays out the government’s collective vision on how the automotive sector should grow regarding size, contribution to national development, technological maturity, global competitiveness and institutional structure. It aims to make India among the top three automotive industries in the world and increase exports exponentially to reach 35-40% of overall output. It also intends to
increase its contribution to the GDP to over 12%, generating 65 million more jobs as well as increasing the size to USD 300 billion by 2026.

Another initiative launched by the government was the Faster Adoption and Manufacturing of Hybrid and Electric (FAME) India scheme in 2015 with a capital outlay of USD 122.3 million. It is based on NEMMP (National Electric Mobility Plan) 2020 road map and covers all segments i.e. two, three wheelers, cars, LCVs, buses, and all forms of hybrid and pure electric vehicles. Faridabad in the north, Sanand-Halol and Mumbai-Pune-Nasik-Aurangabad in the west, Chennai-Bengaluru-Hosur in the south and Jamshedpur-Kolkata in the east, India is fast on its way to becoming the primary global SMEs automobile manufacturer. The government of India is more than willing to lead this charge and assist this sector in every way to help it achieve its full potential.

Review of Literature

**Popli and Rao (2009)** in their article entitled “An Empirical Study of SMEs in Electronics Industry in India: Retrospect & Prospects in Post WTO Era” conducted a Study and analysed that Small and Medium Enterprises (SME) have been globally accepted as crucial components of a domestic economy and major contributor to employment generation in a country, regardless of global barriers. SMEs form the lifeblood of any vibrant economy. In an emerging economy like India, SMEs have a considerable socio-economic role to ensure overall development of the nation. Further, the study reiterate the need to upgrade technology in the Indian SME Sector and developing a strong and supportive environment.
Van de Vrande et al. (2009) argue that most SMEs face challenges that are related with organizational and cultural issues to deal with the increased external contacts. These challenges include venturing, customer involvement, external networking, research and development (R&D) outsourcing and external participations. Moreover, SMEs in developing countries face different challenges from the SMEs in developed countries.

Wynarczyk (2013) said that in the international competitiveness, SMEs are highly dependent on two key internal components - R&D capacity, and managerial structure and competencies, and two external factors – open innovation practices and the ability of the firm to attract government grants for R&D and technological development.

Grimaldi et al. (2013) explored the critical dynamic capabilities of SMEs in the innovation process. They found that SMEs with strong sensing, seizing and configuring capabilities are more tending to develop open innovation process.

Objectives of the Study

1. To identifying the challenges faced by the SMEs automobile sectors in India.
2. To find out PEST factors affecting of SMEs automobile sectors in India.
3. To investigate the SWOT analysis of SMEs automobile sectors in India.

Challenges faced by Indian SMEs automobile Industry

The automotive industry looks set to have a steady year, if key industry commentators are to be believed. In September 2018 Moody's, the prominent credit rating agency, predicted things would be "stable over the next 12 to 18 months", keeping us covered for all of 2019. The availability, interpretation of new data with the challenge being drawing and auctioning meaningful insights. Self-driving cars, with the challenge of being prepared for the sweeping changes they stand to bring. Environmentally friendlier cars, with the challenge of adapting to the shift in consumer preferences they give rise to. The challenges this year are not too dissimilar. Themes of environmentalism, ownership, and technology return, with a few new things in the mix.
There is ever-increasing demand from consumers for environmentally sound vehicles and technologies. Last year we mentioned research by Bloomberg which found increasing numbers of automakers had plans to bring exponentially more hybrid and electric vehicles to their offering between 2015 and 2020. This year we predict further movement in this direction, with growing positive perception of non-combustion engines amongst consumers. This prediction is backed up by market performance. Reuters recently reported that “the sale market share of diesel cars in the European Union fell to 36.5 percent in the first half of 2018 from 42.5 percent in the first half of 2017”, and that as a result, “demand for diesel in Europe is also faltering, down by 115,000 barrels per day” between August 2018 and the previous month. With tightening regulation around emissions and increasing awareness of the wider environmental implications of driving, the challenge is to reassure consumers of the environmental credentials and considerations of your business.

Government Plans Incentives for SMEs automobile Industry

The government is drawing up an incentive scheme for the autos sector aimed at doubling exports of vehicles and components in the next five years, four sources with direct knowledge of the matter told Reuters. The Department of Heavy Industries (DHI) has sought feedback from auto industry groups on the initial proposal, which suggests giving incentives over five years to increase local production and procurement for export, the sources said. The incentives would be based on the sales value of vehicles or components and eligible companies would need to meet certain conditions, including a minimum revenue and profit threshold and presence in at least 10 countries, two of the sources said, adding the form the incentives would take had not been decided.

The PEST analysis for SMEs automobile Industry

A PEST analysis is a business measurement tool. PEST is an acronym for Political, Economic, Social and Technological factors, which is used to assess the market for a business or organizational unit.

1) Political Factors

Political factors may also include goods and services which the government wants to provide or be provided and those that the government does not want to be provided. Almost all of the regulations come from consumers increasing concerns for the environment and the
concern for safer automotives. For instance trade barriers and incentives to the public to buy new cars. (Campbell, Stone house, Houston, 2007)

2) Economic Factors

Economic factors include interest rates, disposable income, unemployment rates, retail price index (inflation), gross domestic product (GDP), and exchange rates. These factors have major impacts on how businesses operate and make decisions. The automotive industry has a huge impact on every country’s economy. According to various studies this industry is the major user of computer chips, textiles, aluminum, copper, steel, iron, lead, plastics, vinyl, and rubber. These industries include anything from the aluminums to lead to vinyl. (Henry, 2008)

3) Social Factors

Social factors include the cultural aspects and include awareness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company’s products and how that company operates. Furthermore, companies may change various management strategies to adapt to these social trends. Anyone who drives a nice vehicle is thought to be wealthy. No one wants to be seen driving an unattractive piece of junk because of what other people will think of him or her. Consumers also just feel better when they are driving a nice or new car, if makes them feel better about themselves. (Woo Jung Kim, 2007)

4) Technological Factors

Technological factors include ecological and environmental aspects, such as R&D activity, automation, technology incentives and the rate of technological change. Furthermore, technological shifts can affect costs, quality, and lead to innovation. The internet has affected just about every industry in the world and has also had a huge impact on the automotive industry.

SWOT Analysis for Indian SMEs automobile Industry

1) Strengths

1. Large Market Share

Although GM’s market share in the US has dropped it is still very much competitive at 26 percent. They also have an increasing share in the Chinese market. With the right decisions there is no reason for GM not to become the automotive leader it once was.
2. Brand loyalty

The current GM brands include: Chevrolet, GMC, Cadillac, Buick, Pontiac, Saturn, Hummer, Saab, Daewoo, Opel, and Holden.

3. New technology

This technology allows the vehicles to be tracked in the event of an emergency or theft. It also allows the driver and or passengers the ability to communicate with personnel at the click of a button. Most automotive company has a new technology.

2) Weaknesses

1. Poor Organizational Structure

As we can see in exhibit 1 of the case GM’s organizational structure seems to be too vertically integrated. This causes a lack of communication between employees from top to bottom and may have played a part in GM falling behind on the alternative energy movement.

2. Behind on Alternative Energy Movement

This has led to many problems including loss of market share and a decrease in company profit. In order for any automotive company to be successful from this point forward they must be Hybrid friendly and fuel efficient.

3) Opportunities

1. Alternative Energy Movement

It is obvious that automotive industry was behind its competition with regards to the research and development of hybrid vehicles. However hybrid technology is still very much new giving the automotive company an opportunity to once again become the automotive industry’s leader in innovation and technology.

2. Low Interest Rates

With the right marketing strategy, the low interest rates have the potential to generate an immediate increase in sales.

3. The power of buyers and availability of substitutes

If buyers are strong and there are close substitutes available for the product, the degree of competitive rivalry will be greater. In recent years, many automotive industries have become more competitive.
4. Develop New Vehicle Styles and Models

This is an opportunity that will never be satisfied, meaning that every SMEs automobile company should always be attempting to develop the automotive world’s most popular vehicles, and as we know, what is in today will be out tomorrow.

4) Threats

1. Rising Fuel Prices

Nowadays most cars use a fuel. But recent fuel price steeply increased. Most SMEs automobile company sales have drastically decreased due to the lack of fuel efficiency.

2. Growth of Competitors

Nowadays in automotive industry there is a growth of competitors. For instance, GM no longer has the luxury of being the known leader in the automotive industry and faces the reality that they are in serious trouble.

3. Pension Payouts.

Automotive company is responsible for providing generous pension benefits to its employees, who at the time seemed like a great idea, however they are now experiencing problems as more and more aging people begin to collect their pensions.
Recommendations

1. Abnormalities in parts or inefficiencies in manufacturing processes exist on any plant floor, but operators may hesitate to point them out for fear it will reflect poorly on the quality of their work.

2. Instead, quality departments and executive management should create a culture where suggestions for improvements—large or small—are welcomed and praised. This will not only encourage employees to offer suggestions, but also ultimately lead to improved manufacturing and quality, based on the recommendations.

3. Relationships between OEM manufacturers and their suppliers have continued to change drastically, shifting from one manufacturer juggling multiple suppliers to a single supplier supporting multiple manufacturers.

4. Working closely with suppliers enables manufacturers to understand the supplier’s internal processes and offer ways to improve the quality of the component parts so they meet the manufacturer’s quality standards.

5. Use technology to connect the supply chain. With a global supply chain, it becomes increasingly difficult to know what is happening at each facility or supplier.

6. Utilizing leading technologies, such as the cloud or mobile devices, helps to connect the supply chain, making it possible for operators and inspectors within a manufacturer’s facility or the relevant supplier to input data from anywhere, using any mobile device.

7. Traditionally, manufacturers had to rely on a paper report and the word of their suppliers that the parts received met the OEM’s high quality standards.

8. Data gathered in-process offer a second tier of information, or manufacturing intelligence, that can be used to increase efficiency and quality across the enterprise and supply chain.

Conclusion

The SMEs automobile companies must improve their process and should be efficient in order to implement their strategies quicker than competitors in times of economic downturns. The National level Automotive Institute for training on SMEs automobile at International Training Institutes (ITIs) and Automotive Training Institute (ATIs) have to be set up. The
Government of India should promote manufacturing and encourage exports of small cars, multi-utility vehicles, two and three wheelers, tractors and components which infuse necessary foreign currencies to India. “SMEs automobiles are more complex than ever, with systems that continue to try to do more for the driver,” says Lyle. “But with complexity comes higher risk for failure. Automotive manufacturers must take steps to mitigate these failures through collaboration and the use of advanced technologies. The ability to easily move information and attain real-time visibility into the supply chain and its manufacturing and quality processes, is crucial in order to continue producing high-quality and safe vehicles.”

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