Enter the Shape Shifters

> *The traditional vehicle shape in the Indian market is changing as the conservative Indian customer is getting attracted to the new shape of vehicles being offered by manufacturers. The new shapes are a blend of practicality, sportiness and make the market – traditionally limited to hatchbacks and sedans – richer.*

If you are an Indian, you will nod your head in agreement with the next 85 words. If you are not, they are anyways a good peek at Indian culture.

There was a time, ~~not too long ago~~ about a decade back, when Indians grew up to become Accountants, Doctors or Engineers. Some adventurous ones, mostly scarred by Mathematics for life, also studied humanities. However, the key to career designing was following a straight path and not becoming too adventurous. The straight line was the norm and any deviations from that were frowned upon.

In essence, your disclosure of intent to open a tattoo parlor would have mostly resulted in a large sized tattoo imprint of your dad's shoe on your behind.

Such were the times.

No small wonder that the typical automobile shape in India was a hatchback. Meanwhile, the rich guys – few in numbers – bought sedans, again few in numbers. There were also the SUVs, which had a larger-than-life image but a smaller than deserved market penetration, mostly because of the price.

India at the time was an 'emerging' market with total passenger vehicle sales of less than a million units. Customers in emerging markets are often lower down the learning curve and quite conservative in nature. Passenger cars for Indians were a mode of transport – an all weather contraption that would get 4-5 people from point A to B in comfort and relative safety. A cheap hatchback did the job beautifully and that was what defined the market.

Opening tattoo parlors was not in then.

A few manufacturers decided to break the bleak monotony of hatchbacks and sedans by offering estates but they never found the volumes. Tata offered the Indigo Marina (Indica / Indigo Estate), Skoda offered the Octavia Estate, Fiat the Palio/Siena Estate and Maruti had the Baleno Estate on offer. Sadly, none of them found favor with the customer.

Things Started Changing

Like most changes in the world, the change in automotive preferences crept upon and caught us unawares. It happened sometime during the last decade but has been clearly visible mostly during the last five years.

The change happened to the conventional shape of the automobile and was driven by finding utility beyond transporting people. People accustomed to hatches and boots were surprised by the advent of new shapes of vehicles that a couple of manufacturers were throwing at them. In some cases, the new shapes were unconventional and difficult to define using the traditional automotive bodystyle dictionary.

They were shape-shifters and some of these new shapes found favor.

The Toyota Innova's contribution to the Indus Valley Civilization

If we were to look back at history and identify a product that defined shape shifting the best in the Indian market, it would be the Toyota Innova. In no way was it the first – the Tata Sumo and Toyota's own Qualis were beyond normal automotive segmentation already. However, the Innova exceeded the Sumo and Qualis' volumes significantly, and at a significantly higher price point too.

Launched in 2004, the Innova also managed to slot a large chunk of its sales to the personal use segment. In comparison, the Qualis and Sumo's usually ended up in the fleet or shared-taxi segments.

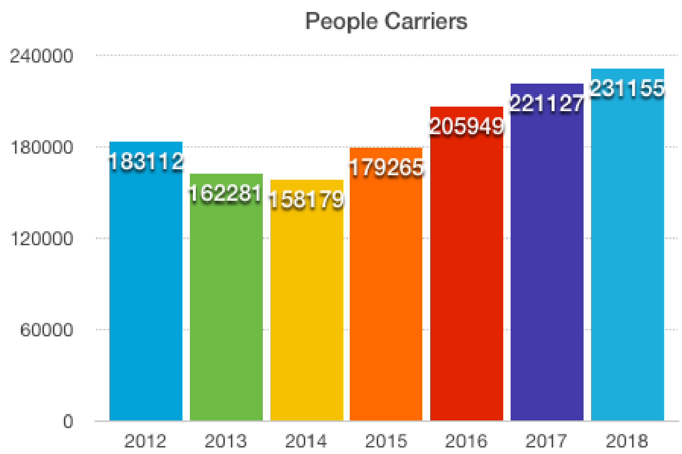
Toyota Innova – The first successful, difficult to define bodystyle

The Innova was different due to its multiple-segment spanning body-shape. In silhouette it appeared like a small minivan. However, the lack of any sliding doors whatsoever and the addition of a third row of seats in its relatively compact dimensions meant that it was different from a traditional minivan. Also, the Innova uses the body-on-frame IMV platform (also used by the Fortuner SUV), which differentiates it from an ordinary estate car.

However, you may define it, the Innova did one thing very well – selling itself. Even at a high price in the neighborhood of a million rupees for most variants, the Innova has sold at an average of 45000-60000 units a year. In recent years, with the devaluation of the rupee, Toyota has increased the price of the Innova significantly, to the point that the top variants now cost upwards of 1.7 million rupees. However, that has not dimmed the customer's enthusiasm for the Innova and sales still hover around 5,000 units a month.

What made the Innova special was the flexibility of usage that it provided. With seven seats, the vehicle finds widespread use as an intra-city cab to ferry office workers. At the same time, the luggage lugging capability and comfortable ride also makes it the ideal choice as a long distance taxi. The Innova also finds use as a second car for large families to enable everyone to travel together and yet there are some who are quite happy to use it as a daily use vehicle.

Any which way, there has always been a large number of Indian customers who prefer buying the Innova to a regular hatchback or sedan. Emerging Markets Automotive Advisors (EMMAAA) paints a bright future for the 'People carrier' segment and expects sales to cross 230,000 units by 2018.



Models include Innova, Tavera, Enjoy, Sumo, Grande, Stile, Evalia & Xylo; For any query regarding the forecast, mail at quickfire (at) emmaaa (dot) com

Post-Innova

Actually, after the Innova, the Indian customer and the manufacturers went off to sleep. No further significant shape-shifters entered the market and the ones that did were not received well. So you had vehicles like the Ford Fusion (a tall hatchback) and the Tata Aria (Crossover), which were difficult to define as well.

Apparently, as it turned out, they were difficult to sell as well.

Which is strange. You see, a logical evolution of customers should have meant that they would be willing to move on to newer bodystyles (Crossovers, softroaders, tall hatches, pick-ups, pick-up based SUVs etc). This was not happening.

However, a deeper analysis of the segmentation during these years (later part of last decade) reveals that the product rejection was more due to perceived poor product attributes and not due to stagnation in customer’s evolution. The customer, as we will see later, has just been waiting for the right product to enter the market.

During this time, products like the Chevrolet Tavera and the Maruti Eeco thrived as they could tap the utility end of the market. The Tavera used the opportunity of Toyota Qualis exiting the lower end of the Asian Utility Vehicle segment and became the vehicle of choice for intra-city shared cab operators.

The Eeco meanwhile found utility in small businesses and with cab operators as well.

The only notable exception in this period was the Mahindra Xylo, the company’s direct intended competitor to the Innova. Designed as a package similar to the Toyota Innova, the Xylo packed in 7-8 seats, depending on the configuration, in a package that had the same bodystyle configuration of four normal side doors and a side-opening tailgate.

However, the Mahindra was considerably cruder than the Innova and that meant that most sales were to the fleet segment and not personal use. Also the feature rich top variants of the Xylo are priced quite steep and that limits its use as a practical day-to-day vehicle.

Last year, Mahindra introduced the Quanto, essentially a chopped to below four-meter length variant of the Xylo. However, a body-on-frame construction renders a very tall (for its length) stance to the Quanto and makes the dynamics challenging.

A New Day has come

Unaffordable, unrefined, and lacking manoeuvrability were some of the attributes that limited the popularity of the Xylo. They were also responsible for keeping the Xylo and Innova sales mostly confined to the taxi segment. This inadvertently also resulted in both vehicles developing a slightly down-market image, making personal buyers further shy away.

The change came in the form of the Renault Duster and Ford EcoSport.

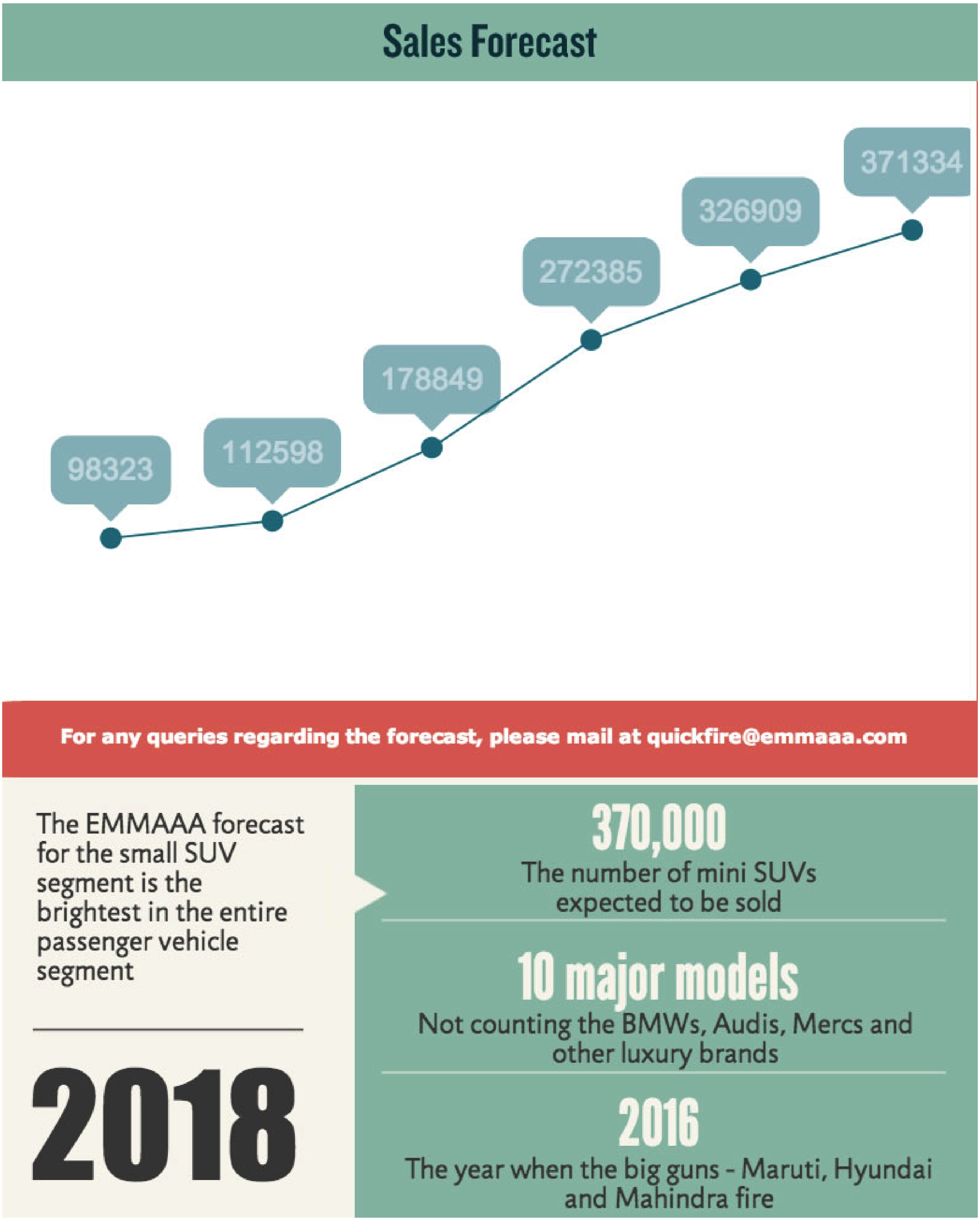
The Duster entered the market in 2012 and became immensely popular. Till the launch of the Duster, Renault in India was doing little more than twiddling their thumbs and cleaning its account books after the Mahindra experience. However, the Duster changed everything as buyers found a lot of practicality in a compact SUV, which could be used as an everyday vehicle. The tall stance worked well for the ego and the high ground clearance did well on potholed roads.

Surprisingly, the Duster’s donor platform – the Logan’s B0 – had never did well in the Indian market prior to the Duster.

Ford went a step further than the Renault Duster. Taking note of the excise duty benefits on sub-four-meter vehicles, Ford packed in five seats and some boot space in the well-liked shape of a crossover SUV. Unlike a Xylo or Innova, the EcoSport uses Ford’s B2E B-segment passenger car architecture, making it a monocoque. This saves on weight, making the EcoSport frugal. Combined with dimensions a few hairs short of four-meters, the Ford needs smaller engines as compared to the Mahindra and Toyota vehicles.

Everything put together results in a vehicle package of a small crossover SUV, with seating for five, the refinement of a B-segment car, the manoeuvrability of a B-segment hatchback and an on-road price comparable to B-segment platform based sedans.

The EcoSport / Duster / Terrano won’t be alone in the compact SUV segment for long. Maruti would have the XA-Alpha concept based SUV out by early 2016 while Hyundai should have one based on the BA platform out by end 2015. Datsun, Skoda, Volkswagen, Tata Motors and Mahindra are also planning similar vehicles. EMMAAA forecasts compact SUV sales to cross 370,000 units per year by 2018.



Small SUVs will comprise of one of the fastest growing segments in the Indian market

Regulation Defines the Shape

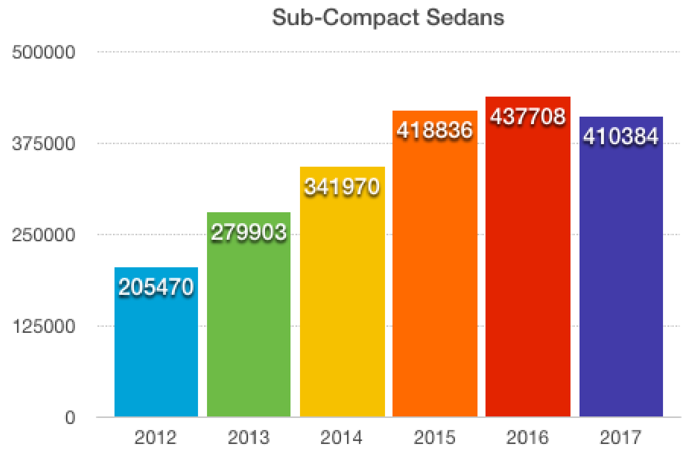
The next unorthodox examples of segmentation adventurism came with the advent of sub-four meter sedans. What started as an experiment by the Tatas with the launch of the Indigo CS in 1998 to provide a better alternative to the fleet segment became a popular trend with the introduction of the second generation Maruti D'Zire in Feb 2012. The crispier new shape of the D'Zire was much appreciated in the market to the point that the model's sales have doubled after the introduction of the new shape.

In recent times, Honda followed suit with the Amaze and hasn't stopped grinning. A number of other manufacturers including Volkswagen, Tata, Ford and Hyundai will all jump into the market over the next few quarters. Al of them, barring VW, gave a glimpse of their small sedan offerings at the recently concluded Auto Expo.

Small sedans like the Maruti-Suzuki D'Zire and the Honda Amaze present an interesting situation for both carmakers and customers. It's a sort of win-win that is not common in the auto industry. While the customer feels that he is getting a significantly better car for a smaller incremental cost, the carmaker often derives a better profit margin on the sedan (as compared to the donor hatchback) due to the higher prices.

In some cases, the sedan actually ends up costing less than the donor hatchback. This is because of the high costs of the hatchback's rear glass and the tailgate lift mechanism as compared to the lower priced latches on the sedan's boot and the lower cost of the sedan's rear glass.

Compared to ordinary hatchbacks, sedans, even those with minuscule boots, are considered much higher in desirability by the Indian customer. In many cases, the sedan makes the customer feel that he belongs to higher strata in society. That is a significant driver of the small sedan's popularity. EMMAAA forecasts compact sedans to account for more than 450,000 in sales by 2018.



This space will get crowded and cannibalise the donor hatchbacks; For any query regarding the forecast, mail at quickfire (at) emmaaa (dot) com

The Future – Four meters and Seven Seats

Another category of vehicles that is fast gaining in popularity is compact MPVs. Smaller than the Toyota Innova, this new breed of MPVs are based on B-segment platforms. Being monocoque in construction and compact in size, they offer the same levels of refinement and handling as comparable hatchbacks. In most cases, the manufacturer is able to price them aggressively as they share platforms and power-train with several other models.

With the Indian passenger vehicle market crossing three million in sales, a number of manufacturers are now doing significant volumes. Manufacturers, recognising India’s growth potential and the significantly lower taxes on sub-four-meter vehicles, are now designing vehicles that meet the Indian small car norms. It also helps that Thailand and Indonesia have parallel small car (eco-car and Low Cost Green Car norms, respectively) norms and the same vehicle can satisfy the markets of all three countries. This is quite beneficial for some manufacturers, especially the Japanese ones.

A result of this is the upcoming arrival of vehicles like the Datsun Go+ MPV. Significantly smaller in size than the Toyota Innova, the Go+ has packaging for seven seats in three rows. Arguably, the third row is for emergencies only but the packaging and interior space utilisation is still commendable. The Go+ would share its platform with the Go hatchback and both cars should be introduced in the Indian market within the next three quarters.

However, before the Go+ appears in the market, we still have the Maruti Ertiga going strong.

The Ertiga was launched in April 2012 in the Indian market. Basically, a stretched Swift with three rows of seating, the Ertiga uses the same engines as the Swift. It is not shorter than four-meter and that disqualifies it as a small car. However, the huge volumes on the Swift platform (shared between Swift, D'Zire and Ertiga) mean that Maruti-Suzuki is able to price the vehicle with a starting price round 600,000 rupees.

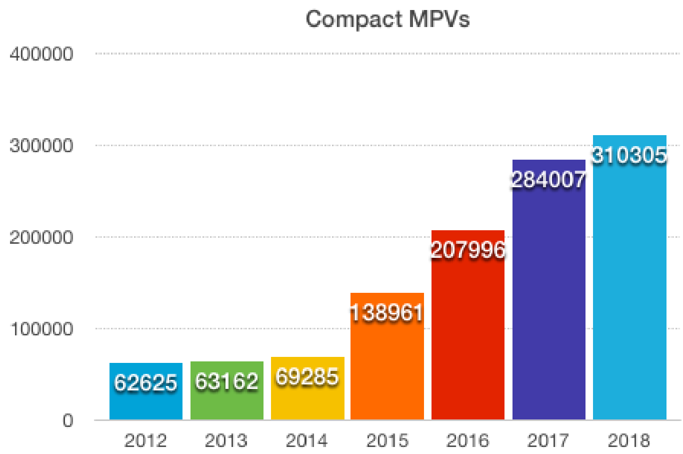
This is a fraction of the Innova's pricing and makes the Ertiga extremely attractive for individual users. Again, the fact that the Ertiga is a monocoque and that makes the ride much more refined. The Ertiga is also smaller and lighter than the Innova and a 1.3-liter diesel engine is adequate for the vehicle. That means a high level of frugality for the Ertiga.

Since its launch, Maruti has been selling an average of five thousand Ertigas every month with peak sales of more than seven thousand units a month.

Similar to the Ertiga, Honda would be hoping to price the

Mobilio aggressively when it launches the vehicle in the Indian market within the next few quarters. Similar to the Maruti-Suzuki, the Mobilio will optimize costing through platform sharing with the Brio and Amaze. Like the Ertiga, the Mobilio is also not a sub four-meter model. However, platform sharing and a high level of localisation should help Honda price it aggressively.

Similar vehicles are expected to be launched by GM, Ford, Hyundai and Renault over the next 2-3 years. EMMAAA forecasts the total market for such compact MPVs to cross 310,000 units per year by 2018.



Compact MPVs will grow rapidly with the introduction of new models; For any query regarding the forecast, mail at quickfire (at) emmaaa (dot) com

What it means for Suppliers

In many of the above cases, 2-3 models are sharing the same platform. More models on the same platform are often good news for OEMs as well as suppliers. Both enjoy higher volumes, allowing their plants to run at high capacity utilisation. Suppliers are often willing to offer better pricing to OEMs when the volumes on a platform are high.

However, suppliers who are supplying components to only one model (trims, interiors, seats etc), have to be cautious on the volume forecast. In many cases, one of the models on the platform will surprise on the upside and some other model may get you on the lower than expected volumes.