



# Investigating Opportunities in the Indian Luxury Automobile Market

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# 1 Executive Summary

Toyota is currently the world's second largest auto supplier, and has a chance to soon overtake General Motors at the top. As Toyota strives to maintain its torrid growth and expand its operations worldwide, it must search for untapped and undersupplied markets. One of these is the Indian luxury automobile market.

With an economic growth rate of 9.4% per year, India has the second fastest growing economy in the world. With a rapidly expanding middle class, the demand for luxury cars is growing steadily. With current competitors catering the very upper echelon of Indian society, we propose that Toyota launch Lexus in India, and target the Indian upper middle class. Lexus should focus on adapting their product to withstand the poor Indian infrastructure, building a strong and distinctive dealership network, promoting the Lexus brand, and forming partnerships with local corporations. In the future, Lexus should consider expanding operations in India to include manufacturing.

## 2 The History of Toyota and Lexus

Toyota Motor Company began in 1933 as a new division of the Toyoda Automatic Loom Works, under the direction of Sakichi Toyoda. Its first engine was developed in 1934, and its first car and truck (the Model A1 and G1) were built in 1935. In 1947, Toyota debuted the Toyopet, which had a low top speed but was designed to be cheap and rugged. At around this time Toyota also began producing a civilian truck called the Land Cruiser. In 1958, Toyota began selling the Land Cruiser and Toyopet in the United States, and imported the Corolla in 1969. The popularity of Toyotas increased dramatically due to the oil crises of the 1970's. Consumers desired inexpensive, reliable cars with better fuel efficiency than large, gas-guzzling American models. However, as the country emerged through the Reagan era, a booming American economy, combined with a drop in fuel prices, shifted the demand in cars from utilitarian to luxury, resulting in higher sales for well-established luxury brands, like BMW and Mercedes. Toyota soon followed suit by launching an entirely new brand – Lexus.

Toyota's first entry into the luxury automobile market occurred in 1955, with a 4 cylinder, 1.5 L engine called the Crown. Production increased from 700/month in 1955 to 50,000/month in 1964. However, Toyota's true foray into the luxury car industry began in 1983 in a secret meeting of company executives called by Chairman Eiji Toyoda. They determined that it was time for Toyota to make a serious attempt to compete with the reigning kings of the luxury automobile industry (e.g. Mercedes, Audi, BMW). Research over the next few years focused on interviews and lifestyle studies of American consumers to understand what they valued in a luxury car. The first Lexus was introduced in 1989 and was met with immediate success, due to the high reliability and affordability in conjunction with a level of luxury equal to competitors.

## 2.1 Toyota Today

Toyota recently introduced the Scion brand as a way to attract more youthful customers, but this largely failed. Toyota still has the reputation of being dull, but reliable and durable. Toyota is currently the 2nd largest manufacturer of automobiles, in terms of unit sales and net sales. In 1966 Toyota acquired Hino, which specialized in trucks. In 1967 they also acquired a majority stake in Daihatsu, which made 3 wheeled cars and military four-wheel drive vehicles that were popular in South America. By 1999, Toyota was selling over 3 million units overseas annually. In the U.S., Toyota has twice the sales of Honda and ranks third in sales overall, followed closely by Chrysler. Worldwide, Toyota has the second highest sales volume, only trailing General Motors.

In 1959, Toyota opened a factory in Brazil, its first plant outside Japan. Its philosophy was to localize production and design, that is, to build and adapt vehicles in the home countries where the plants would be built. In the 1990's, Lexus expanded to the United Kingdom, Canada, and Australia. In India, Toyota has established Toyota Kirloskar Motor (TKM) in 1997, with a plant with production of 44,500 units/year, and believes that India is one of the keys to reaching its goal of "grabbing 14% of the global market", as outlined in its latest "global master plan." "Russia, India, China and Brazil, no doubt about it. Those four are absolutely where we think a lot of action will be coming...there's a lot of potential for growth," said Toyota spokesman Paul Nolasco. Toyota is planning on opening a new assembly plant outside Bangalore by 2010, which will produce mostly low-priced compact vehicles.

## 2.2 What makes a Lexus?

Lexus has a high reputation for quality, reliability, and durability, as well as having excellent customer service. J.D. Power and Associates, in 2007, deemed Lexus the most reliable brand for the 13th consecutive year. Consumer Reports named Lexus among its five most reliable brands.[1]

Lexus has a variety of models for different types of consumers. The IS and ES models are designed for the entry level luxury customer, while the GS and LS are for the middle and high end consumers. Lexus just recently added hybrid vehicles to their lineup, with the RX 400h being the first hybrid luxury SUV and the GS 450h a luxury performance hybrid sedan.

Lexus automobiles are designed with an emphasis on aerodynamics, performance, comfort, and ride quality. They are built according to the IDEAL philosophy (Impressive, Dynamic, Elegant, Advanced, and Lasting). Each must fulfill over 500 specific product standards, and each Lexus is equipped with advanced safety systems, powertrain design, and surround sound audio systems. Sound absorbing foam, as well as sound absorbing sun visors and acoustic glass windshields, are installed to ensure a quiet cabin.

Much of Lexus's production occurs in its lauded Tahara plant in Japan, but the company also has a North American plant in Ontario. Lexus vehicles are produced with different methods and standards of quality control, molds, and equipment. Lexus

workers are veteran technicians, and vehicles are tested with more stringent performance tolerances and requirements.

Lexus prides itself on excellent customer service. At Lexus dealerships, customers are treated to special waiting areas and cafes. Services include free loaner cars during repairs, complementary car washes, convenience shuttles, and exclusive parking lots at major sporting events. Lexus and Toyota command the highest loyalty rates in industry, according to J.P. Powers and Associates (Figure 1). Lexus operates according to its "Lexus Covenant": "Lexus will treat each customer as we would a guest in our home".[2]

### **3 Six Forces Analysis**

#### **3.1 New entrants**

The automobile business, in particular the luxury car business, is a mature industry. To enter the market of luxury cars is an extremely complicated and expensive venture. Constructing new plants with the required highly skilled and experienced labor force is impossible for a company to do in a short time-span. Currently, Lexus cars are only produced in five plants, one in Ontario, Canada and four others in Japan (including the award J.D. Power Platinum plant in Tahara).[3] Economies of scale are a large factor in this industry. As evidence, the major players in the general luxury car industry are primarily global brands such as BMW, Mercedes-Benz, Lexus, and Porsche. Further dissuading new entrants is that brand reputation is vital, as luxury cars are as much a symbol of wealth and status as high-performance cars.

Thus, there are two types of new entrants. The first is an existing global luxury brand. Cost is not a primary concern of luxury car manufacturers, quality is. Thus, luxury cars are generally imported from the company's mother nation across the globe. This would be no different in India. Thus, the largest obstacle for an existing global luxury brand is establishing a set of high-class dealerships in the major metropolitan areas that contain the vast majority of the wealthy class. This threat is very real, as the cost of establishing dealerships as opposed to plants is low. Any new entrant would lag, however, because brand recognition takes longer to develop. Additionally, many companies have already attempted to release luxury cars in India in bulk, such as BMW, Audi, and Mercedes-Benz, and have had moderate success. While importation would subject the automobiles to tariffs imposed by the Indian government, this is a cost that can be passed on to the customer until there is enough of a consumer base to justify the construction of a native factory.

The second type of new entrant is a local company with an established brand name and dealer network starting to sell a high-priced, high-quality car. The major threats to do this are the two largest brands in India, Tata Motors and Maruti Suzuki India Limited. Tata Motors purchased the Jaguar and Land Rover brands from Ford in March 2008, giving it solid brand recognition. However, Jaguar is known for being a highly unreliable car.[4] In India, with its extremely poor infrastructure and demanding driving conditions, current models of Jaguars are not ideal. Tata Motors runs the risk of spoiling

the valuable reputation of Jaguar by rushing it in production without first enhancing its reliability and durability. Nevertheless, with vast experience in manufacturing, advertising, and operating in India and large capital reserves, Tata is a formidable entrant.

Maruti Suzuki carved its niche first as an affordable car company, and is still primarily focused on these lower priced, value cars. Recently it has branched into higher quality cars (such as its SX 4 luxury sedan) as the market can support it, and has the capacity to creep into the luxury car market by progressively offering higher quality cars. Maruti Suzuki could also start a new brand, much as Toyota did with Lexus, to avoid being associated with the Maruti 800, the first wildly popular cheap model in India.[5]

Who the new entrants are and how they enter is likely to depend on the mistakes and successes encountered by Lexus as its models are introduced. Depending on what is seen to work and fail, other companies will adapt and adjust their strategies.

### **3.2 Buyer Bargaining Power**

In general, buyer bargaining power for luxury cars in the US, Europe, and Japan is high because there are many luxury car brands and many substitutes. The only mitigating factor is that there are also many customers, and many have preconceived notions about brands that rarely change. However in India it is only moderate. The Indian market is largely untested and untapped, but as later discussion will show (Section 4.3), it also appears quite capable of handling more firms due to a surplus of potential buyers. This decreases the power of each buyer, as Lexus can afford to wait for the right customer. Furthermore, there are not many luxury cars sold in India as in other parts of the world. With a relatively weak network of dealerships, it may be the case for many buyers that there are only a few options.

### **3.3 Supplier Bargaining Power**

Supplier bargaining power is very low. For parts and raw materials, there are many suppliers and many different options available to Lexus. This prevents any supplier from demanding higher prices in return for a bulk order or raising prices above the generally accepted market price. In fact, Lexus can demand lower prices by buying in bulk. India is the world's second largest producer of automotive parts.[6] Therefore, if Lexus were to establish a plant in India, it would benefit from having a large source of parts and would not be threatened by a supplier holdout for higher prices. This avoids India's import duties as well.

Labor in India is relatively cheap. Skilled labor is less abundant and requires better pay, but wages are still comparable to those demanded in Japan or the US. The Indian car industry employs over 13 million and produces enough cars to export to many other nations, including Europe. Thus the labor force exists to build luxury cars with the proper guidance and know-how.

Labor unions in India are very uncommon, and the government sides with industry. In 2005, at a Honda scooter and motorcycle plant in Gurgaon, India, the workers did

strike. The cause was the alleged unjustified firing of a few employees who were suspected of starting a union.[7] During the strike, a demonstration was brutally ended by Indian police and soon after the strike also ended. Clearly the Indian government sides with international corporations, which lowers the bargaining power of labor.

### **3.4 Substitutes**

There are many possible substitutes for a Lexus in India. The most obvious is from other luxury cars manufacturers, such as Mercedes-Benz, which has a strong following in India already. Each brand of luxury car has its own strengths and weaknesses, which may make BMW, Mercedes-Benz, and others better or worse substitutes.

Another substitute is a lower quality car. India produces many of them, and they are of improving quality so this is a viable option. Taxis also could replace a luxury car. While most car owners, especially those with luxury cars, employ chauffeurs, there are other difficulties. Parking is difficult to find, and taxis are numerous, so a wealthy individual might prefer to use a taxi for a quick trip over their car. Public transportation comes in the form of busses, subways, and rickshaws, and is prevalent in urban areas. However, it is often crowded, dirty, and bothersome. Walking and biking are also substitutes in some cases, but a wealthy individual would probably lead a slightly more sedentary lifestyle. Generally, an individual purchasing a luxury car is not concerned about cost. They buy luxury cars for the comfort, status, and ability to drive wherever and whenever they want, all of which are hard to obtain with anything other than a high-end car.

### **3.5 Rivalry**

Rivalry is relatively low in this market. In general, price competition is moderate in the luxury car market; price is a secondary concern to customers who care very much about the quality and reputation of the car. There are strong pressures to offer the best features in these types of cars, but there are greater forces at play in India. Brand recognition and status are very important in India, as the car one owns is a direct reflection of one's social status and financial security. Automobiles are used by consumers in a manner similar to jewelry and watches – the flashier the better.

With a GDP growth rate of almost 10% per year, the Indian economy is one of the fastest growing in the world. By 2035, India is expected to have the world's 3<sup>rd</sup> largest economy (see Figure 2), and the demand for automobiles is expected to grow likewise. This increase in demand will likely exceed supply and decrease rivalry, thus allowing every company to increase profits without harming the others. As evidenced by China's decades of large growth, India could very well do the same, continuing to outpace production increase and keeping rivalry relatively low, at least in comparison to the extremely rivalrous markets in the US, Europe, and Japan.

### **3.6 Complements**

The complements are numerous. Among them is infrastructure – roads and gas stations. By having a larger and better network of roads and gas stations, owning a car

becomes more useful and increases demand. The construction industry in India is booming, and this is due in no small part to the building many new roads and highway.

A second type of complement is the service provided either by Lexus or a third party. This includes maintenance shops with skilled mechanics, places to purchase tires and spare auto parts, towing services for a broken down car, financing, and insurance agencies. All of these are very desirable services to someone owning a car, particularly an expensive car.

By far the biggest complement is a network of dealerships. Dealerships are crucial points of sale and service of all luxury cars. Simply their presence serves as a constant reminder and advertisement to the quality of the brand. As the face of the company to the consumer, they are often quite luxurious themselves. Lexus dealerships cater to the upper class, fully furnished with high-end furniture, computers, complimentary refreshments, and other amenities (Figure 3).

Dealerships can offer many of the services mentioned such as financing and maintenance (in the form of warranties). In this way, Lexus can guarantee a few complements to increase their sales. The image it presents as a company that cares, by loaning money and maintaining its cars, is also very valuable and increases demand. Lexus places an emphasis on service currently, giving it a deserved good reputation.

## **4 SWOT Analysis**

### **4.1 Strengths**

The Lexus the brand name itself is of significant strength. The company has a very strong reputation in automobile industry. It symbolizes reliability, affordability, and luxury.

Toyota entered the Indian automobile market in 1997 as Toyota Kirloskar – a joint venture of Toyota Motors and the Kirloskar Group. After 11 years in India, Toyota-Kirloskar now has about a 6% of market share. As the Indian luxury car segment is growing rapidly, the introduction of the Lexus brand in India would fill a profitable niche.

Toyota sells automobiles in 160 countries, and they have sold more than 112 million vehicles worldwide. Toyota has experience in marketing products in developing countries, and has operations in Africa, the Middle East, China, Mexico, and India. Introducing Lexus in India would not be much more difficult, given the preexisting presence of Toyota. With a well-established network of Toyota dealerships and service centers in India, maintaining Lexus in India should be a feasible task. While Lexus and Toyota do not share dealerships, maintenance would be simplified by servicing Lexus automobiles at Toyota establishments.

Due to its large capital base, Toyota has a very efficient production by virtue of economies of scale. It also has its well-known Toyota Production system and “just-in-time” production philosophy. With lower cost, Toyota can price Lexus cheaper than

other luxury cars, thus making it more competitive. On the other hand, it can also market Lexus in the same price range as competitors, but garner higher profits.

## **4.2 Weaknesses**

Toyota Kirloskar does not currently have many large scale production plants in India. Therefore, importing Lexus cars to India generate transportation costs and import duties. On the other hand, if Toyota were to achieve its goal of a 15% worldwide market share by the year 2015, it would have to build a stronger foundation in India. Toyota needs to set up more production plants, as well as redesign some of its models to adapt to India's poor roadway system.

Other than market challenges, Toyota also faces potential economic and political risks. The Indian economy has been growing rapidly since its economic liberalization of 1991. It is still unstable, and there is the risk of sudden crash in economy due to war or political unrest. Corruption is a recurring problem in India. Unless Toyota can manage to find a way to circumvent corruption, it could cause the company to lose money or to compromise the quality of their products.

## **4.3 Opportunities**

The Indian luxury car market is thriving with a growth rate of 28% per year.[8] There is a lot of market potential for new entrants. With a population of 1.1 billion that is growing at 2% per year, and an economic growth rate of almost 10%, market demand is very high. There is also a sizeable population of expatriates returning to India every year, or at least establishing a second residence back home. They contribute to the demand for luxury cars. The Lexus brand is popular among Indian Americans, and Lexus would be wise to capitalize on this brand loyalty and recognition.

However, as a new entrant, Lexus has to compete with other luxury cars such as Mercedes-Benz, BMW, Porsche, and Jaguar. Mercedes has been in India for more than 40 years, and is a well-recognized brand name. To win market share from Mercedes, Lexus has to differentiate itself. It can offer a similar but more affordable product, or cars with similar performance but improved fuel efficiency. Lexus and Toyota are well known for their reliability. This is a big advantage over Porsche and Jaguar, which do not have such a reputation. Dealing with India's poor infrastructure will be a huge challenge for these luxury cars.

## **4.4 Threats**

Lexus will face threats from other, lower level brands, such as Nissan, Honda, Ford and GM, as well as Indian companies like Tata, Maruti-Suzuki, and Hindustan Motors. However, with Toyota's foundation in India, Lexus has first mover advantage over overseas brands, and is significantly more prestigious than local manufacturers. With its base established, Lexus has some time to build manufacturing centers in India before the entry of the other companies.

To compete with other international companies in the same category, Lexus can play to three of its greatest strengths – price, reliability and fuel economy. With the rocketing oil prices, increased fuel economy makes Lexus a more appealing choice compared to other luxury cars.

Many local car companies, such as Tata, have started producing higher end cars. Although they are not in the same niche as imported luxury cars, their price makes them attractive. As they squeeze the space between high end economy cars and low end luxury cars, they could grow to become competitors in the near future. If they manage to reach such a stage, their strong local presence and brand recognition will make it difficult for international companies to compete.

## **5 Automobile Market Entry in Mexico**

All of the major auto companies now have expanded into Mexico, and luxury car manufacturers such as Audi, BMW, and Mercedes all sell their popular models in the country. Mexico in the late 1990s resembled the situation in India today; thus it would be helpful to examine several car companies' entries into Mexico as a marker for how Lexus should expand into India. Mexican auto workers were paid low wages, as low as \$1.50/ hour, compared to an average of \$20.00 in the U.S. However, Mexican plants had antiquated machinery and were erratic in quality. The Mexican market was small and limited, 1/25<sup>th</sup> the size of the U.S.'s. However, economic growth along with the oil surplus between 1977 and 1981 rapidly increased its size, and significant gains in production made expansion into Mexico a favorable option. The Mexican auto industry was dominated by foreign producers (68% U.S., 20% European), despite heavy tariffs established to protect domestic producers.

Harley Shaiken, in the Latin American Research Review, relates a case of an automobile company's entry (the real name was classified, the given name was 'Universal') into Mexico.[9] The Mexican work force was mostly uneducated, young, and inexperienced. Most only had a junior high education; in order to develop skilled workers, local workers underwent intensive off-the-job training at a local technical college, followed by months of training in U.S. plants and the actual Mexican plant. However, wages became an issue with workers and union leaders after a time since they demanded the same wage levels as other workers were receiving in the U.S. or Asia. These conflicts resulted in a few strikes, which resulted in the firing of 34 workers and 3 union leaders.

The plants used a sophisticated and innovative work organization by organizing all workers into "work groups". All jobs paid the same wage, and all workers were expected to learn all the jobs on the team and rotate through them. Thus, the work group makes decisions that management normally makes, resulting in great depth of skill through the work force.

However, turnover was a major problem due to the arduous and time consuming nature of the job. Assembly line workers often had to work from 7 AM to 1 AM. Plants had from 15% to 110% turnover rates, which resulted in the hiring of women at several

plants. Due to this turnover, it was very difficult to retain highly trained and skilled workers.

## 6 Strategies

For the entry of Lexus into the Indian luxury car market, we propose that the following topics be investigated:

- Customer targeting scheme and advertising campaign
- Product adaptation
- Establishment of dealership network
- Investigation of potential local partnerships
- Comparison to Mexican market
- Development of manufacturing centers and labor relations

### 6.1 Targeting and Advertising

Indian society is quite stratified. Almost 25% of the population is under the poverty line. However, this is a drastic improvement since the 1970s, and the current economic situation in India looks only to improve. With the high growth rate in India, the sudden influx of cash and opportunities has spurred the growth of the Indian upper middle class. This population is the *nouveau riche* of Indian society, and is the prime target for a new Lexus launched in India. They are young, smart, and aware of global trends and brands. They would recognize Lexus as an affordable, but equal, alternative to the conventional luxury car. Targeting these individuals is also an investment in the future. Lexus has excellent brand loyalty, and capturing the middle class early could keep them with Lexus for many years, even after they have ascended into the upper class.

Selling Lexus to the pre-existing upper classes is a harder task. Their values are in tradition and high status, and they would be loath to step away from the Mercedes and BMWs that have the elite feel that Lexus does not. Also, they would be less concerned about the affordability factor that Lexus brings, as they have far more disposable income than the middle classes.

Another set of potential targets are expatriates, either returning to India from the United States or Europe, or maintaining a second residence in India. Lexus' combination of reliability, affordability, and comfort make it one of the most popular automobile brands among Indian-Americans. Finding a way to carry its customer high customer retention rates overseas from America could open up a whole new segment of the market for Lexus.

Therefore, the advertising campaign should target these populations, the upper middle class, and expatriates. Media outlets to explore are television, periodicals, and billboard advertising. The target television shows should be those watched by a young,

educated audience. For example, afternoon soap operas and evening dramas are not good targets. Rather, advertisements during popular sitcoms, sporting events, intellectual game shows in primetime would reach the desired audience. As Lexus is entering a new market, it has the opportunity to rebrand itself as a cool and happening company, and avoid the dull reputation it has garnered elsewhere. The advertisements should be modeled in such a manner. Periodicals should cover a spread of fashion magazines, business chronicles, and daily newspapers. These reach the largest group of people, but are one of the more affordable advertising methods. For example, *The Times of India* is the mostly widely circulated English-language newspaper in the world.[10] Billboards, already a very common advertising scheme in India, would be a relatively cheap method of building brand recognition in a new market (see Figure 4). Cross promotion of Lexus in Indian cinema is also a good method reaching a large number of people and building brand recognition.

The expatriate population is not affected by these methods. As they spend much of their time in the United States or in Europe, they would not be targets of the Indian-based newspapers, billboard schemes, and television campaigns. They need their own personalized media sources. Advertising a "Lexus in India" in Indian-American publications, like *India Abroad*, or on Indian television channels broadcast in America via satellite is a good way to reach the expatriate audience.

## **6.2 Product adaptation**

The poor Indian infrastructure places extreme demands on the design of any car released in India. Roads, where they exist, are poorly paved, and largely lacking in maintenance. Only the richest of neighborhoods have well-maintained streets, but these comprise a tiny fraction of the entire roadways network. Due to poor urban planning, traffic is extremely heavy, and poor police coverage results in rampant traffic violations. These factors cause for a large amount of "stop-and-go" driving, which puts a considerable amount of strain on the car. A luxury car, however reliable it may be in a developed nation like the United States, would need considerable structural fortifications and redesign to withstand the stresses of the Indian driving environment. The design team would need to assume that the car would be driving off-road almost everyday, and provide cars with the chassis, shock absorbers, and other structural facets needed to overcome these obstacles, while still maintaining the ride comfort and quality that Lexus is known for.

While this might seem like a difficult task, it has been done in the past with other cars. Honda has three cars, the Civic, Accord, and CRV, that, designed for American and Japanese roads, have been adapted for India. Toyota itself has the Camry and Corolla running in India. While the amount of work needed for Lexus will be greater, as the same level of quality is required to ensure that the brand reputation is maintained, it is a very doable task. Repeated road testing on Indian roads, computer simulations, and general abuse of the modified car to test its limits are an absolute must to ensure quality. As high speeds are not as prevalent, engineers can sacrifice a bit of performance for better comfort and luxury.

### **6.3 Dealerships**

A strong dealership network is required for any new entrant into the Indian car market. Consumers need to be able to see their product and try it before purchasing it, and this holds for cars as well. Dealerships should be concentrated in urban areas, where there are the most potential customers. An Enterprise strategy of a wide but shallow network almost everywhere would be inefficient and would not properly target the desired consumers. Placement of dealerships across the country should be done according to the economic growth rates of major metropolitan areas. India's nine most populous cities are all growing at rates ranging from 6% to 11%,[11] and are home to much of India's growing middle class. Focusing dealerships in these areas makes the most sense. Dealerships located in metropolitan centers also provide excellent publicity.

In the luxury car business, dealerships are the front that the company displays for consumers. Not only are they a location for the company to store cars, they reflect the status, elegance, and reputation of the company as well. They should act as social filters, weeding out the lower classes by making them feel unwelcome. While cruel, this *is* what makes luxury cars so appealing to upper classes – they are different, rare, and only a few people can actually own them. For this reason, dealerships should be opulent and imposing on the outside to convey superiority, but friendly and warm on the inside to make those with the confidence to enter feel welcome and important. This scenario is perfect for the targeted upper middle class, as they have the confidence to shop at the dealerships, but would be pleasantly surprised and swayed by the high level of service. Carrying over the high level of service offered in America to Indian dealerships would also work well with expatriates coming back to India to shop. They would be in a familiar place, and their comfort level would make them more likely to remain loyal to Lexus.

### **6.4 Local partnerships**

Forming partnerships with local entities could be a valuable asset. Local companies already have the name recognition and customer base that Lexus desires. They would be excellent sources of publicity and promotion, and could provide support with issues such as labor, materials, and government relations.

The two major Indian car manufacturers, Tata and Maruti-Suzuki, do not currently have offerings on the luxury market. Thus cooperation with them would allow for both companies to grow while remaining in their own niche. Tata could continue to specialize on more affordable cars and Lexus would reap the benefits of working with an established player in the Indian market. While Tata has recently acquired Jaguar, it might want to wait before releasing it in India, as Jaguar is unreliable in developed countries, leave the far poorer Indian environment. A joint venture with Tata, where Lexus takes advantage of the established dealership network and brand recognition, would spur early growth. Another benefit of working with Tata is the potential for cross-promotion in other industries. For example, as Tata owns the elite Taj Hotels of India, Lexus could establish a rental or high end taxi service with the hotel. This would help to

improve publicity, and if consumers taking advantage of the program liked the car, they might purchase one in the future for personal use.

A partnership with one of the major oil companies (e.g. Bharat Petroleum, Indian Oil Corporation, Reliance Petroleum) in India would do well to explore the complements of gasoline and maintenance. Lexus could ensure gasoline quality, as well as set up mechanics garages at stations. Having a preferred gasoline provider would allow Lexus to concentrate its resources on helping a single company provide better service for customers. Customers would benefit from the security of knowing that the gasoline provider has been backed by the company that made their car, and that the mechanics at these locations have been trained to specifically fix their cars.

Another possible partnership would be with the Indian government. Providing Lexus to top government officials at a discounted price with exceptional service and maintenance would be an excellent way to gain publicity. It would also help Lexus gain favor with the government, possibly leading to better taxation rules and preferential treatment.

## **6.5 Manufacturing and labor**

Once Lexus has gained a foothold in the market, it might be a good idea to consider setting up a manufacturing center in India. While the initial sunk cost of establishing a factory is involved, it would lower variable costs of transporting the cars from Japan, and dealing with import duties and tariffs. Also, as mentioned in section 3.3, a company working in India has much greater bargaining power against suppliers. Cheaper raw materials, cheaper labor, and cheaper parts would all be beneficial to Lexus. Also, the government support of big business would be helpful to keep labor in line.

There are three methods to choosing a location for a new manufacturing center. First, one can locate the plant near a major metropolitan area, where there will be a steady supply of labor, both skilled and unskilled, as well as good connections to materials supply lines. This would be the quickest and probably cheapest way. Another method is to set up the plant in a central location of the country, on transportation and supply lines, and build a new community around the plant. Land would be cheap, and the company could grow as it needed. It could move in skilled laborers, house them in the community, and provide good compensation. While this method is more expensive and would take longer set up, it would provide a foundation for a solid manufacturing hub for Toyota-Lexus in India, setting the company up for future growth, and possibly even export from India in the future. The final method is to build the plant near the current Toyota plant in Bangalore. This would take advantage of preexisting supply lines and labor bases.

### **6.5.1 Learning from Mexico**

Manufacturing in Mexico, as described in section 5, was fraught with poor equipment, labor disputes, and low skill levels. These are obstacles that Lexus would wish to avoid with the launch of a manufacturing center in India. Using state-of-the-art machinery, that has layers of safeties and securities built in, would save money, prevent accidents,

and ensure high quality. Toyota has the capital to furnish their factory with such equipment.

Labor is one of the pressing issues that any new manufacturer faces in India. While much of the population is unskilled, people are willing to learn new jobs and work for relatively low wages. Implementing the “work group” method of rotating workers through different jobs would be a good idea as it would build skill levels quickly. Offering generous compensation (of course scaled to Indian frame of reference), ample benefits, and manageable hours would be a good way to generate employee loyalty and prevent turnover. Lexus should be an employment opportunity that is in demand, much like Google is with software engineers in America. Thus, less money would be wasted in training.

Toyota has dealt with labor disputes in India already. In January 2006, a strike at the Bangalore plant due to the dismissal of 3 employees shut the factory down for two weeks. The State Government intervened and sided with Toyota, prohibiting the strike. Eventually, the workers lost the strike, and those who protested were forced to give up 16 days worth of salary. The cooperation of the government was very helpful, and should continue to be so in the future.

## **7 Reactions of Rivals**

The two sets of rivals, the luxury manufacturers, and the local, cheap car manufacturers, would react in different ways. BMW and Mercedes probably would not lower prices to compete, as that might cheapen their brand name. They would instead try to explore complements and offer benefits to buyers. They would try to form partnerships similar to what Lexus would form, and offer higher levels of customer service, to match that of Lexus. They might also try to reshape their image on some of their products to try and compete with Lexus. However, this would be difficult, as consumers would have preconceived notions of them. It may well happen that BMW and Mercedes do not respond at all to the release of Lexus. They target a different niche, and would not want to upset their already established customer base to chase after a new one. Also, any response to Lexus would not have the first mover advantage that Lexus possesses, and a significant amount of time would pass before competitors could catch up.

Tata and Maruti-Suzuki probably would not respond significantly to the entry of Lexus either. Their niche is also different, and is still quite profitable. In the future, they might try to increase the quality of their products, or introduce a new upper level product or brand to compete with Lexus, but that would take a significant amount of time and capital. Even if they manage to set up a new brand, marketing against Lexus would be extremely difficult. It is far more likely that Tata or Maruti-Suzuki would form a partnership with Lexus.

## 8 Conclusions

Launching Lexus in India would be an astute strategic move for Toyota. The growing Indian economy and increased demand for luxury automobiles has left a large segment of the industry untapped. Toyota-Lexus has an excellent combination of engineering expertise, marketing know-how, brand recognition, and business savvy to properly capture this segment. Growth in India will help get Toyota to its goal of 15% worldwide market share, and maintain its place among the automotive leaders.

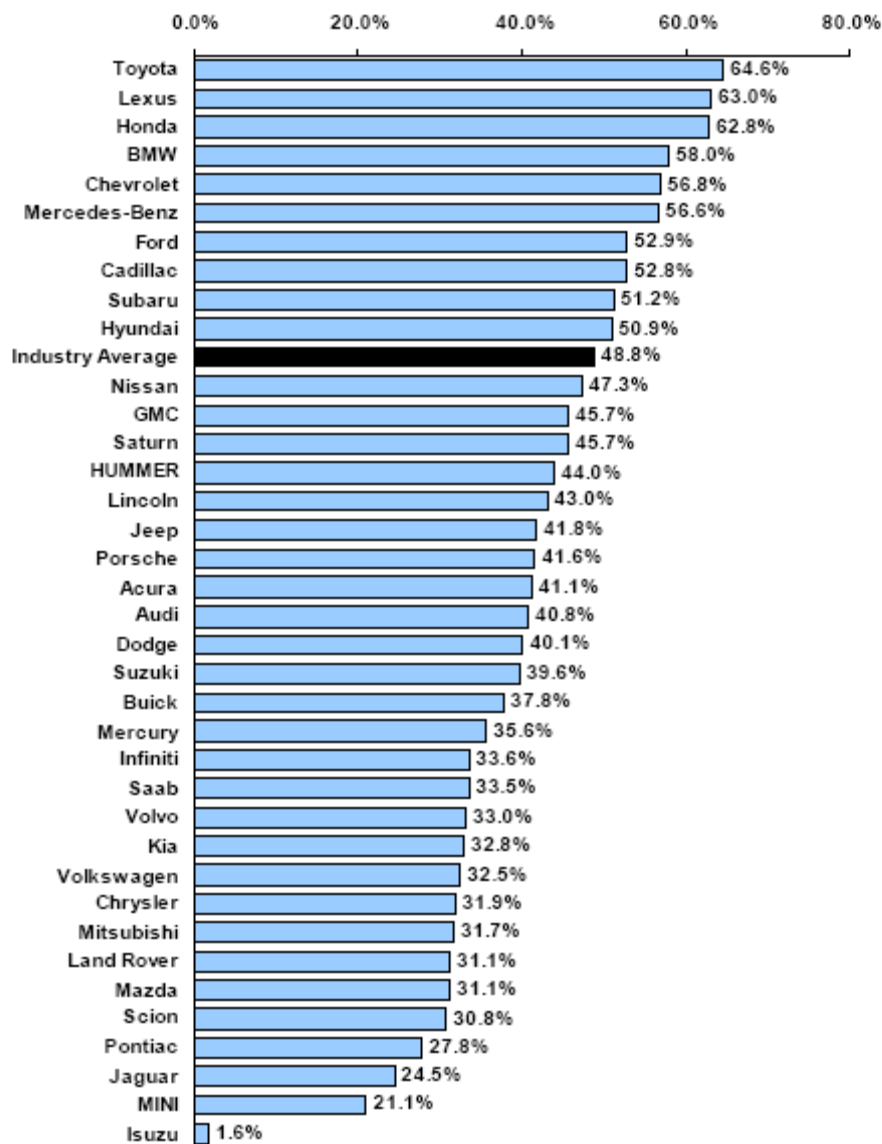
Well-targeted advertising and marketing schemes are essential if Lexus is to reach the growing upper middle class. Lexus must properly adapt to the harsher Indian driving environment and fight off threats from German competitors, while maintaining the high quality product for which it is known. Partnerships with local corporations, both in the automobile industry and in complementary industries, and with the Indian government are an excellent way to fortify and accelerate Lexus' growth. Lexus must also take advantage of the Toyota's preexisting manufacturing, distribution, and servicing infrastructure in India. Finally, Lexus must maintain its reputation of excellent customer service.

For the long term, Lexus might wish to consider establishing a manufacturing center in India. Labor, raw materials, and parts are both plentiful and affordable, and the government is friendly to multinational corporations. Lexus might even be able to export Indian-made automobiles to other parts of the globe. However, care must be taken to properly train and retain skilled workers.

## 9 Figures

### J.D. Power and Associates 2007 Customer Retention Study<sup>SM</sup>

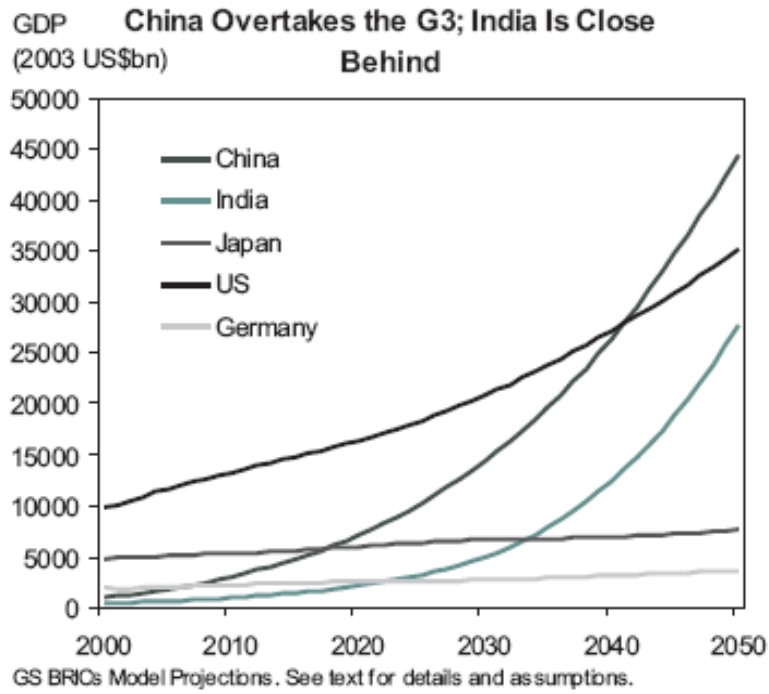
#### 2007 Make Retention Rates



Base: The percentage of customers who replaced a vehicle previously purchased new and acquired a new vehicle of the same make.

Source: J.D. Power and Associates 2007 Customer Retention Study<sup>SM</sup>

Figure 1 – JD Power and Associates Customer Retention Study for 2007.  
Toyota and Lexus are the industry leaders. [12]



**Figure 2 – Goldman Sachs Projections of World Economies. India surpasses Germany in 2022 and Japan in 2035. [13]**



**Figure 3 - Interior of Lexus dealership in Santa Monica, CA**



Figure 4 – Billboards are one of the most common methods of advertising in India. They reach a large audience at very affordable prices.

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