

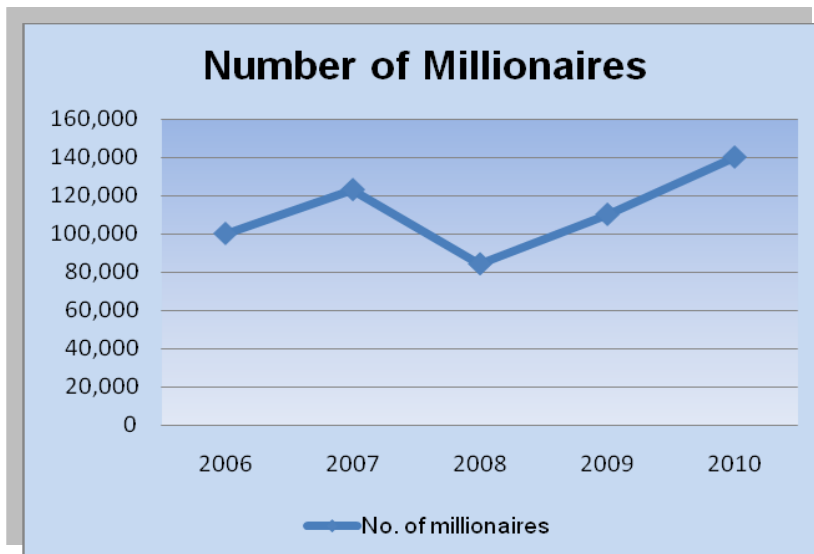
## Indian Luxury Car Market – An Insight

The recent growth in the luxury car market in India is much more than mere market dynamics in a particular car segment. It is a reflection of the changing lifestyle of the affluent class in the country. In India, the luxury car segment (Average Price 25-30 Lakh) has been growing at an average rate of 20% or above during recent years; it seems to be least affected by the global financial crisis. During worst recession period when world was facing low market demand trends, Indian luxury car segment grew at 23% to 6,671 vehicles according to the Society of Indian Automobile Manufacturers (SIAM) despite a



0.5% decline in passenger car sales, to 11.04 lakh vehicles (April-December 2008 Report). But financial year ended March 2010 has shown growth of automotive sector up by 25% to 15.26 lakh vehicles. This indicates optimistic sign of recovery of sector. While the Indian auto industry is expected to grow at 17% to 19% on an average, sales of luxury and super-luxury cars are expected to grow exponentially.

Luxury car segment accounts only for 3-4% of total car sales in India. But what lures the international majors is the fact that this segment is growing at 25%-plus (2009 sales), much higher than 15-17% growth registered by the small passenger car segment over the past few years. This growth of luxury car sales is driven majorly by increased wealth-creation within average Indian population and the desire of individuals to join the millionaire-club by flaunting their wealth.



Growth of Indian economy has been faster than other emerging economies during recent times. Globally, India had the highest growth-rate (22.7%) of millionaire population during the year 2007. India added 23,000 millionaires from 2006 to 2007, taking total figure to around 123,000 millionaires; wealth as measured in US Dollars (Merrill Lynch Cap Gemini Report). However, during recession, the country noticed a decline of 31.6% in number of millionaires. But post-recession recovery was

much faster compared to other economies. These numbers are expected to grow up to 1,40,000 by the year 2010. This robust growth in the number of millionaires in the country, being one of the highest globally, paves the way for further growth of the luxury car market.

In addition, the average age of an Indian millionaire has come down to 35-40 years from the earlier average of 50 years. An increasing number of young entrepreneurs and professionals from various fields are buying luxury cars and this affluent segment has been boosting sales volumes. If we look into city-wise wealth distribution, the Northern region in India (comprising of cities like Delhi, Chandigarh, Ludhiana, Shimla, and Jalandhar) comprises higher density of millionaire population than rest of the parts. This region therefore has the highest luxury car sales. After this come, Greater Mumbai, Ahmedabad, Pune, and Chennai. These cities have a luxury car sales pattern which is still higher compare to rest of the country.

The historical regional sales data of luxury cars sold in India, shows that 32-35% of the total are sold in Delhi region only. This is possibly due to the psychological preference shift among the North Indian population to show off their wealth. Delhi is followed in this list by Mumbai, and Punjab state, where Ludhiana and Jalandhar are at the top two slots.

Delhi also happens to be the biggest market for Mercedes-Benz, Mumbai ranks second followed by the states of Gujarat, Karnataka, Tamil Nadu and Punjab. This geographically distributed population could be clustered into classes on the basis of overall behavioral patterns observed in luxury brand consumers.

### **Classification of consumers of Luxury Brands**

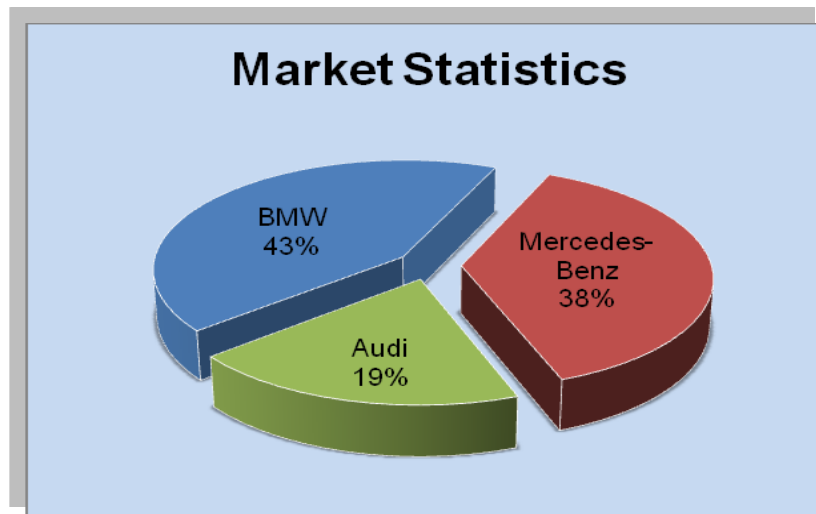
According to a leading research company, the consumer-population in luxury markets can be divided into three categories:

**Functional-** This segment comprises people who buy the luxury goods for their superior functionality and high quality. The people in this category decide to buy based on their logic, rather than emotions. In India, functional segment consumer-population is highest among the three segments.

**Rewarding-** The 'status- symbol' is the driving factor for this segment. The average age for this category is 35 years. People under this category are a major force behind the increasing sales figures of luxury cars in India.

**Indulgence-** This category comprises the youngest lot out of the three categories. Currently, this category is experiencing highest growth in Delhi and NCR regions.

Luxury car majors in India - Mercedes-Benz, BMW and Audi put together have around 85%



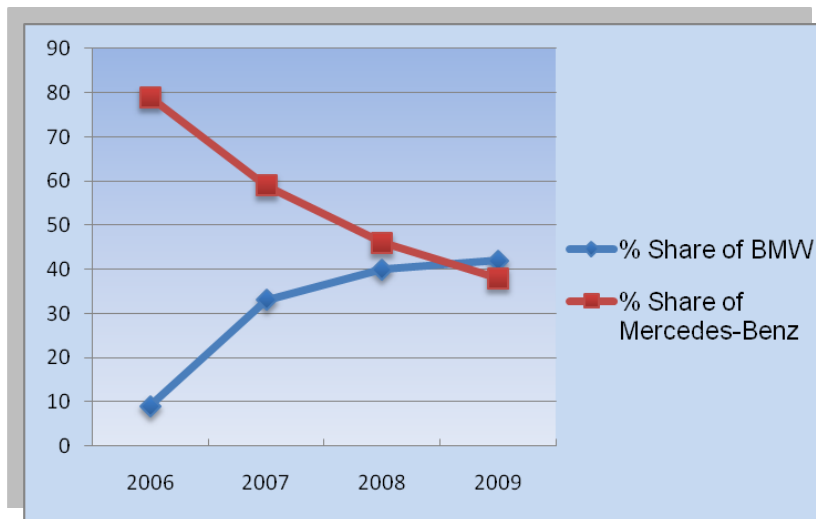
market share. The German car brand Mercedes-Benz had first-mover advantage as it had started operations in India in 1995 and there was no direct competition in this category. So, it remained 'Numero Uno' luxury car brand in India for more than a decade. But, market dynamics have changed significantly after the entry of BMW in 2006 followed by Audi in 2007.

The overall market share of luxury cars has been reorganized due to the new

entrants. This has resulted in new equations being forged amongst the various players, driven primarily by a rapidly swelling millionaire-club having diversified choices and preferences. In 2006, BMW had 9% market share which has now grown to 42%, catapulting BMW as the number one luxury brand in terms of sales. Audi which started its operations in 2007 has had the fastest growth-rate amongst the three and has now captured 20% of the luxury car market. So, the Indian luxury car market is favorable for new entrants who are capable of grabbing the untapped opportunities by following the customer-oriented approach and having ability to induce demand by innovation at each level of marketing mix.

**To get a deeper understanding of the scenario we need to delve into the competitive strategies of these three brands.**

**BMW Vs Mercedes-Benz-** Mercedes-Benz India Limited was established in November 1994 as a joint-venture between Daimler-Benz AG and erstwhile Telco (presently, Tata Motors). It has traversed a long journey starting with the launch of one of the most successful models worldwide – the Mercedes-Benz E-Class (W124) in March 1995. Mercedes India, now known as DaimlerChrysler India Private Ltd., has a



state-of-the-art fully-equipped manufacturing unit in Pune. Mercedes-Benz is known for providing the Indian customers, latest models and technology following strict quality standards. The company considers India as one of its most promising markets. The Mercedes-Benz C-Class and Mercedes-Benz E-Class cars are locally manufactured while the Mercedes-Benz SL-Class cars are imported as completely built units (CBUs). The company offers S-Class, E-Class, C-Class, M-

Class, CLS-Class, SLK-Class, CL-Class and the Maybach.

European Major BMW entered in India in 2006. The company with headquarters in Gurgaon and production unit in Chennai had initial investment of 1.1 billion rupees. It has swiftly developed both infrastructure and dealership network. The production plant at Chennai, established in 2007, has an annual capacity of 3000 units in a single shift and it produces BMW 3 series and BMW 5 series sedans. The rest of models- BMW 7 series, X3 and X5 are imported as CBUs. BMW 3 and 5 series account for 80% of the total sales of company in India, of which BMW 5 series has highest sales.

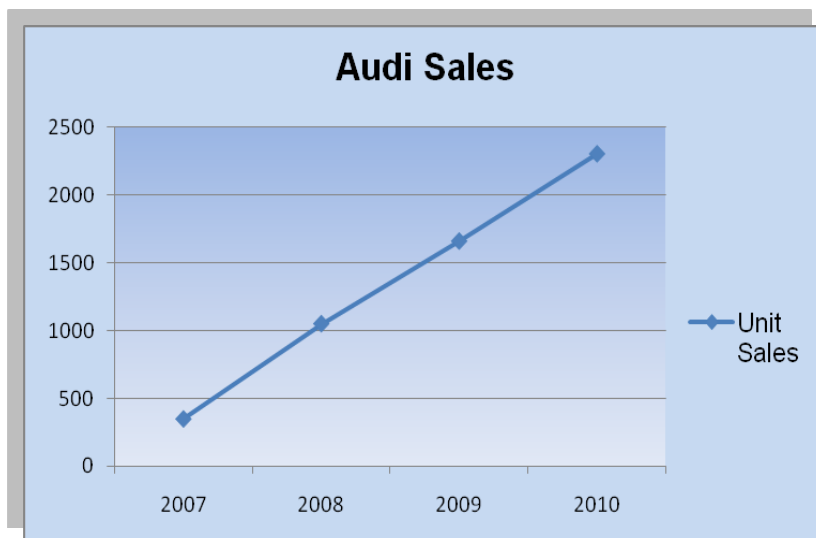
BMW India, with its aggressive marketing, fast expansion of product profiles, strategic dealership location selection and supplementary financial service offering, has managed to wrest biggest market share from Mercedes-Benz. BMW and Audi, both focus on sportier features and new launches to encourage young buyers. Decrease in the average age of luxury car buyers is a favorable condition for this kind of selling strategy.

In the Indian scenario, where 75% of passenger cars and 60% of luxury cars are purchased through financing, financial supplementary support is critical to success of the car makers. Taking this into account, BMW Group is planning to introduce BMW Financial Services India, which will provide services to BMW customers, providing financing facilities to fleet-owners and commercial-financing to their dealers. Discounting older models is another successful strategy applied by the company. It is also planning to launch 'Pre-Owned Car Sales Program' in 2010. BMW's 5-year coverage (after sales) is another attractive factor compared to the 2-year warranty provided by Mercedes-Benz. In the Indian scenario, the luxury cars are generally chauffeur-driven. This trend has been well-imbibed by BMW as it has focused more on back-seat facilities during designing and marketing. The company has been focusing on some other technologies like Integral Active-Steering, Park Distance Control (PDC) and Head-up Display (X5) for providing enhanced features for comfort in the Indian driving conditions.

BMW has been acting very swiftly in identifying its dealership locations so as to achieve maximum sales volume aligned. BMW with 15 dealership locations (two locations in Delhi and Mumbai) competes with Mercedes-Benz having 32 dealership locations because it has strategically expanded its dealership network to higher demand luxury car markets. In next phase BMW is planning to target emerging tier 1 and 2 cities like Jaipur and Lucknow to compete with Mercedes whose 25-30% sales revenue comes from tier 2 cities.

**Latest and Fastest- Audi AG**

Audi India started operating in 2007 by establishing its own sales company in Mumbai. The company started production of Audi A4 in November 2007, followed by Audi A6 in 2008 in its Aurangabad plant. Rest of the models - Audi A8, Audi Q5 and Q7, Audi TT and super speed racing car Audi R8 are imported as CBUs. Audi invested significantly in brand building, marketing the product qualities and improving after sales services in India. Audi offers technology with composure and agility to current techno affluent Indian youth. Known for its technology, luxury and style, this German car maker has received five different awards by Indian auto media. Audi's commitment to innovative and sophisticated design is widely endorsed by car buyers. One of the reasons of Audi's global success is its ability to identify potential markets for expansion. The company selected India as its second production site after China. The local production provides Audi, ability to cater customer needs in a cost effective manner.



Audi is always a first choice of techno-geeks who want to get more involved during the drive. Besides being the fastest growing luxury brand in India, Audi regularly brings new models and variants of existing models to surprise the car lovers. Audi Q5 is the most endorsed imported sports utility vehicle (SUV) in India. The company followed the same dealership location strategy as BMW by selecting similar sales regions of high demand (four dealership locations in northern and central regions-

Delhi, Gurgaon, Chandigarh and Ludhiana) at 13 locations country-wide. Due to these efforts, Audi has rapidly captured market in India and has exerted considerable pressure on the other dominant players. The company noticed a 65% jump in sales (200 cars) in May 2010 compared to May 2009 (121 cars). Both Audi and BMW have focused in the world class music system facility and ultra luxury looks in their models.

Luxury car segment is going to change as there are many new cars lined-up for launch during the period 2010-2012 with approximately 50 to 60 new models from major global brands. Tata Jaguar, Lexus, Bentley and Fiat are some of the players who would be seen as aggressive entrants with their high market experience. The market future will not only be driven by product itself but also services associated with it. So it would be a war of biggies, competing on diverse parameters. Automobile market will be noticing a great shift but as the previous pattern of market shows, the only mantra of success will be a holistic approach aligned to the company's brand image and customer oriented vision.

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