

## A STUDY OF CUSTOMER SATISFACTION TOWARDS AUTOMOBILE SERVICE SECTOR IN AUTOMOBILE SHOWROOMS OF NORTH KARNATAKA: A RESEARCH

### AGENDA

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#### Abstract:

**Preface:** The Indian Automotive Industry has come a long way since independence and has turned to become the most vibrant sector. As quoted by Peter Drucker the automobile industry "industry of the industries", which stands true in case of Indian Automotive Industry. With *the contribution of about 7.1% to the Indian GDP (source: IBEF) and accounting to 22% of contribution in manufacturing GDP, this sector and lucrative export scenario, this sector has the potential to dominate the global automotive industry.*

*But in the hindsight, intensified competition in all the categories has forced all manufacturers to expand their sales and services all over in the past few years, which would help them to far out their market reach. This has resulted into increase of dealership networks by 40% (source: MSIL Report, 2014). Consequently due to higher pressures from manufacturers has raised intense pressure on the dealerships to earn profits and maintain their sales and commute operations. The rising prices of real estate, rentals, operative expenses, investments on customer centric showrooms with standard specifications has increased the upfront investments for the new dealers has pressurized financial performance of the dealerships. In order to attract new customers and retain existing customers the dealers are forced to benefit the customers with discounts at the cost of their commissions, as major revenue for the dealers only comes through sales of vehicles. Hence satisfying customers becomes the primary focus of the automotive dealers, as it can result increased sales, which ends up in higher income for the dealers and manufacturers. Also these customers are more likely to purchase additional products and services and bring new businesses through word-of-mouth communication.*

**Significance of study:** The present study area that has attracted significant interest of the researcher is to understand the various facts and facets about the customer satisfaction in the automotive service space (namely the automotive dealers). The outcomes of the study will lay down a blue print for the dealers and the manufacturers to develop newer strategies and streamline operations so as to satisfy their customers and keep on serving them in the long run.

**Keywords:** *Customer Satisfaction, Automobile Service Sector, Automobile Dealerships, North Karnataka*

#### 1. Historical Perspective of Automobile Industry:

Transportation is the basic necessity of all human beings. The most primitive means of transportation for early humans were animals like bulls, oxen, horses, donkeys, etc, but as the human activities became more and more of laborious, the anxious and innovative minds of human beings invented wheeled carts, chariots and the do. Further, the want of more carrying capacity, more speed and luxury propelled the invention of automobiles in 18<sup>th</sup> century. The first steam powered automobile capable of carrying people was butyl by Nicolas-Jospeh Cugnot in the year 1768 (Eckermann & Erik, 2001). Subsequently in 1807 the first internal combustion engine was developed by Franchoise Issac de Rivaz followed by the invention of first petrol/gasoline run engines by Karl Benz (Eckermann & Erik, 2001). Many vehicle there after made there presence felt like oil fired steam car in 1815 (Georgano, 1985), four seat steam in 1838 (Georgano, 1985), high wheeled steam buggy in 1865, liquid fuelled internal combustion engine by

Seigfried Marcus in 1870, Marcus-II in 1883. It is universally acknowledged the older version of the automobiles which are prevalent now the "Internal Combustion Engines" was first invented by Karl Benz in 1886.

### 1.1 Indian Automobile sector: Past, Present and Future

So far as advent of Automobiles in India is concern, the first car ran on Indian road in 1897 (Source: Wikipedia) which was directly imported. The factual development of Indian automobile manufacturing started in the year by launching of Hindustan Motors in 1942 followed by Premier in 1944 followed by Mahindra and Mahindra in 1945 (Piplai, 2001). By 1950's and 1960's the growth components of Indian Auto sector was lull mainly because of license raj (Kamala and Doraiswamy, 2007). Up till the 1980's the Indian Auto sector was majorly dominated by the local companies. But after 1986, in view of early partial liberalization, the international auto makers were allowed to invest in India, as the result of which auto makers like Suzuki, Toyota, Hyundai started their joint ventures with existing Indian automobile companies (Economic and Political Weekly). By 2000, India had 12 off shoot global automobile manufacturers. Since then the Indian automobile sector has tremendous growth on par with all the categories and sub categories scoring a place as one of the largest in the world. Cut to 2014 onwards, the Indian auto industry accounts to about 7.1% of the Indian GDP (IBEF). In FY April 2015 to January 2016 alone the total manufactured automobiles stands out to be 19.8 million vehicles, which included commercial vehicles, passenger vehicles, three wheelers and two wheelers (IBEF).

**Table 1: Domestic Production Trends from 2009-10 to 2014-15**

Category	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Passenger Vehicles	23,57,411	29,82,772	31,46,069	32,31,058	30,87,973	32,20,172
Commercial Vehicles	5,67,556	7,60,735	9,29,136	8,32,649	6,99,035	6,97,083
Three Wheelers	6,19,194	7,99,553	8,79,289	8,39,748	8,30,108	9,49,021
Two Wheelers	1,05,12,903	1,33,49,349	1,54,27,532	1,57,44,156	1,68,83,049	1,84,99,970
<b>Grand Total</b>	<b>1,40,57,064</b>	<b>1,78,92,409</b>	<b>2,03,82,026</b>	<b>2,06,47,611</b>	<b>2,15,00,165</b>	<b>2,33,66,246</b>

Source: IBEF (Indian Brand Equity Foundation) [www.ibef.org](http://www.ibef.org)

As evident from the data in the Table 1, the production of all the types of vehicles is seen growing at an average rate of 3.90% year-on-year basis. This shows the huge demand for the automobiles in India. The researcher has attempted to study the domestic potentiality and sales pattern in order to foreground the study in the succeeding chapters. The sales of the Passenger Vehicles in India grew by 8.13 % in April 2015 -January 2016. Within the Passenger Vehicles, Passenger Cars grew by 10.18%, during April 2015 -January 2016 over April 2014 - January 2015. The sales of Commercial Vehicles in India grew by 9.43% in April-January 2016 over April-January 2015. The sales of Medium & Heavy Commercial Vehicles grew by 30.19%.

**Table 2: Domestic Sales Trends from 2009-10 to 2014-15**

Category	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Passenger Vehicles	19,51,333	25,01,542	26,29,839	26,65,015	25,03,509	26,01,111
Commercial Vehicles	5,32,721	6,84,905	8,09,499	7,93,211	6,32,851	6,14,961
Three Wheelers	4,40,392	5,26,024	5,13,281	5,38,290	4,80,085	5,31,927
Two Wheelers	93,70,951	1,17,68,910	1,34,09,150	1,37,97,185	1,48,06,778	1,60,04,581
<b>Grand Total</b>	<b>1,22,95,397</b>	<b>1,54,81,381</b>	<b>1,73,61,769</b>	<b>1,77,93,701</b>	<b>1,84,23,223</b>	<b>1,97,52,580</b>

Source: IBEF (Indian Brand Equity Foundation) [www.ibef.org](http://www.ibef.org)

So far as the market share bifurcate is concerned the passenger vehicles holds a maximum market share with 13%, followed by Commercial vehicles with 3%, Three wheelers with 3% and two wheelers with 81% market share.

**Table 3: Domestic Market Share (as on 2014-15)**

Passenger Vehicles	13
Commercial Vehicles	3
Three Wheelers	3
Two Wheelers	81
<b>Grand Total</b>	<b>100</b>

(all data in %) Source:SIAM

According to Indian Brand Equity Foundation (IBEF) the Indian Auto sector is also a prominent auto exporter since 2005. In the financial year 2014-15 census 31% of the small cars sold globally are manufactured in India. In April 2015 - January 2016, exports of Commercial Vehicles registered a growth of 18.36 per cent over April 2014 - January 2015. Sensing this potentiality and growth in both domestic and international markets the Indian government has encouraged international investment in the form of FDI's (Foreign Direct Investments) under the automatic route. Some of the snippets of the major initiatives of Government of India are listed in the Exhibit: 1 below-

**Exhibit 1: Major initiatives of Government of India to support Automobile sector**

- Government of India has made automobiles manufacturing as the main driver of 'Make in India' initiative, as it expects passenger vehicles market to triple to 9.4 million units by 2026
- Government has announced to provide credit of Rs 850,000 crore (US\$ 124.71 billion) to farmers in the Union budget of 2015-16, which is expected to boost the tractors segment sales.
- Ministry of Road Transport, Highways & Shipping announced plans to set up a separate independent Department for Transports, which will comprise of experts from the automobile sector to resolve issues like - fuel technology, motor body specifications and fuel emissions, apart from exports.
- Government of India plans to promote eco-friendly cars in the country i.e. CNG based vehicle, hybrid vehicle, and electric vehicle and also made mandatory of 5 per cent ethanol blending in petrol.
- Government of India has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020 to encourage the progressive induction of reliable, affordable and efficient electric and hybrid vehicles in the country.
- The Automobile Mission Plan for the period 2006–2016, designed by the Indian government is aimed to accelerating and sustaining growth in this sector.

Source: Compiled by the researcher

Hitherto the sector has attracted enough FDI's and several auto makes and thri ancillaries have started investing in India. A total of US\$ 14.32 billion worth of FDI has been attracted in a span of April 2000 to December 2015 (DIPP). Some of the most important investments and developments in the sector are listed below in the Exhibit 2

- Honda Motorcycle and Scooter India (HMSI) has opened world's largest scooter plant in Gujarat.
- Ford has launched its iconic Ford Mustang in India and will make its debut in second quarter of FY2016. Also, Ford plans to manufacture two families of engines by 2017, a 2.2 litre diesel engine codenamed Panther, and a 1.2 litre petrol engine codenamed Dragon, which are expected to power 270,000 Ford vehicles globally in India.
- Nissan Motor Co. Ltd is in discussion with Government of India to bring electric and hybrid technologies to India.
- The world's largest air bag suppliers Autoliv Inc, Takata Corp, TRW Automotive Inc and Toyoda Gosei Co are setting up plants and increasing capacity in India.
- General Motors plans to invest US\$ 1 billion in India by 2020, mainly to increase the capacity at the Talegaon plant in Maharashtra from 130,000 units a year to 220,000 by 2025.
- US-based car maker Chrysler has planned to invest Rs 3,500 crore (US\$ 513.5 million) in Maharashtra, to manufacture Jeep Grand Cherokee model.
- Mercedes Benz has decided to manufacture the GLA SUV in India. The company has doubled its India assembly capacity to 20,000 units per annum.
- Germany-based luxury car maker Bayerische Motoren Werke AG's (BMW) local unit has announced to procure components from seven India-based auto parts makers.

Source: Compiled by Researcher

According to Automotive Mission Plan (AMP) 2016-2026 prepared by SIAM and Government of India, the Indian automotive sector has the potential to generate annual revenue of US\$ 300 billion by 2026, creating 65 million jobs and can contribute 12% to India's GDP. Two-wheeler production is projected to rise from 18.5 million in FY15 to 34 million by FY20. Leading auto maker Maruti Suzuki expects Indian passenger car market to reach four million units by 2020, up from 1.97 million units in 2014-15. Furthermore, passenger vehicle production is expected to increase to 10 million in FY20 from 3.2 million in FY15. The government aims to develop India as a global manufacturing as well as a research and development (R&D) hub. It has set up National

Automotive Testing and R&D Infrastructure Project (NATRIp) centers as well as a National Automotive Board to act as facilitator between the government and the industry.

## 1.2 India's Automobile Service Sector

In the era of Internet, the Indian Automotive Customers are tuned to the global markets and products. The Indian customers expect the same level of product and service quality. The wide range of models from different manufacturers with not much change in the specifications within same price band has made it easy for customers to switch from one brand to another. So the challenge of attracting the customers, selling and retaining them with world class services has turned out to be great challenge for all the automobile manufacturers. As already discussed in the preceding section, the India's automotive sector has witnessed a steady influx by the introduction of global automotive players. The sector is also getting enough of support and inclination from the government. But, as the population of the vehicles increases the need for an efficient and economical service network becomes essential to sustain competition in terms of product range, quality and service. Year on year the new vehicles should be sold, serviced and maintained. Hitherto, service depth and quality turn out to be the most important components to gaining customers and retaining them.

Typically, the performance of any auto manufacturer in terms of market share or customer experience *per se* depends upon the health of the automobile service networks namely the distributor, dealers and sub-dealers. So, in a way the dealers and manufacturers have to create up the mobility in building the capacity to sell and serve the customer better. According to Arora (2012), the Indian Automobile service sector essentially stands on three important pillars S's –

- i. Service Infrastructure – essentially Automotive Dealers (appointed by the manufacturer) located at the right locations.
- ii. Supporting infrastructure – Showroom with good ambience, well equipped workshop and availability of Automotive Spares
- iii. Skilled Manpower to assist the entire service pattern

According to ICRA Report (2012), titled “Indian Automotive Dealership Industry” the automotive dealership was considered to be the low investment business with majority of investments in inventory which the dealer operator has to have in the form of spares. But with the rising prices of real estate, rentals, operative expenses, investments on customer centric showrooms with standard specifications has increased the upfront investments for the new dealers has pressurized financial performance of the dealerships. Also, in order to attract and retain customers and to sustain stiff competition the dealers are forced to pass on the discounts at the cost of dealer's commissions and/or margins. Further, to add to the agony of dealership businesses, advent of third party service providers such as Castrol bike points, Bosch Multi Brand Car services, Carnation, MyTVS bike points etc, have created a dent in the way dealers have been operating. In such scenario, effective sales and services for customers have become utmost important for all the dealer service centers in India to sustain high levels of competition. The competitiveness and less differentiated products at almost same levels of pricing have called in for more attention towards customer satisfaction and retention for automotive dealers and manufacturers.

### 1.2.1 Customer Satisfaction in Automotive Service Space:

According to ICRA Report (2012), the automotive dealership business has varied sources of revenue which are listed below-

- i. First and the major being the selling of vehicles (old and new) – According to the research conducted by ICRA on 125 automotive dealerships in India, they found that 85% of the revenue comes from selling of vehicles
- ii. Second being sales of spares, servicing of vehicles, incentives from the manufacturers, commission from insurance and financing company's together accounts to 15%.

So to say, major revenue is constituted out of sales of vehicles rather than sale of spares, accessories and other income avenues. But, in view of increased sales push from the manufacturers is resulting in increased non moving inventory; increased operational expenses (rentals, employee); investments in modernization of showrooms and owing to the decreased sale because stiff competition in terms of alternatives in the same price band with similar or more features and specifications has resulted into higher levels of debt on the dealers. Thus, dealers have to look on a more than one ways to retain their market share by enhancing the services being provided by them.

As seen in the previous paragraph where majority of the revenue of automotive dealers comes through sales, the primary emphasis of all the dealers should be churning around the “Customer Satisfaction”. According to Dua and Savita (2013), Customer Satisfaction in a service space is an important factor because higher level of satisfactions can result in many other types of benefits such as

- a. Loyalty
- b. Repeat Purchases
- c. Referrals
- d. Customer Retention
- e. Reduced cost of service
- f. Premium safety

Automotive service providers such as automotive dealers are primarily required and focused to provide good service quality which should exceed customer expectations and should result in 100% satisfaction of the customers. Satisfied Customers can more than often increase organizations income and more likely to purchase more services from the organization (Reichheld, 1993). Also, the customers generate new businesses for the organization through positive word-of-mouth (Reichheld, 1996). As stated by Zeithaml et al., (1996) the concept of satisfaction and loyalty is highly prevalent in Service organizations as compared to product organizations because unlike services, in product organization the quality is perceived and judged on the basis of product specifications and performance, but the component of intangibility revolves majorly in services, making it more difficult for service providers identify different ways to satisfying customers and gain loyalty.

### Research Agenda

As apparent from the explanation above there exists a huge scope to understand the factors influencing the customer satisfaction in automotive dealers. In order achieve the title of the study, the researcher will be undertaking following actions and take the research in that direction

- i. To conduct exhaustive literature survey related to customer satisfaction and to thoroughly understand the concept of customer satisfaction
- ii. To review various models and applications of customer satisfaction
- iii. To review the customer satisfaction literature in service sector in general and automotive service sector in particular
- iv. To identify the gaps in the existing literature
- v. To articulate various factors used in the past to measure customer satisfaction
- vi. To develop a research framework to do formative assessment of the factors influencing the customer satisfaction in automobile showrooms (dealers)
- vii. To develop research questions, objectives and hypothesis
- viii. To develop a comprehensive questionnaire
- ix. To conduct a pilot study to authenticate the research questions
- x. To analyze and interpretation of the data gathered using suitable statistical tools and techniques and form a detailed study report under the title "A STUDY OF CUSTOMER SATISFACTION TOWARDS AUTOMOBILE INDUSTRIES IN INDIA WITH SPECIAL REFERENCE TO AUTOMOBILE SHOWROOMS IN NORTH KARNATAKA"

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