

SMEs in Auto Components

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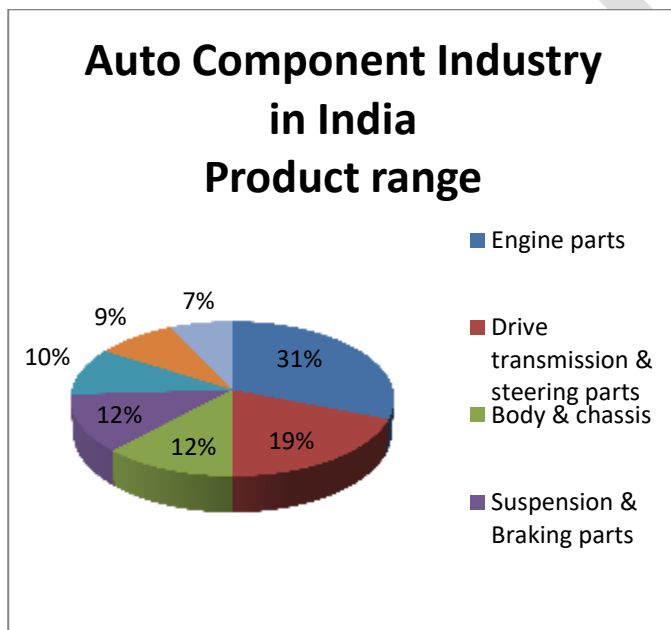
In India Automotive industry is growing at an alarming rate. It is the engine of growth for the economy. It is amazing to know that this industry provides employment to 1.5 million people. It contributes 3.8% to national GDP and 25.6% to manufacturing GDP.

To make India lucrative in automotive industry for foreign investment, the focus must be improving Research and Development and create greater returns than the cost of capital.

Automotive Component Manufacturers Association of India (ACMA) has adopted the theme “make quality and technology in India”. This had given boost for new product development, enhancing quality standards, safety standards, embracing digital technology, upgrading employee’s skills to meet the global standards and global expansion of OEMs.

In order to become globally competitive there should be strong cooperation and collaboration between the various stakeholders i.e. OEMs, component manufacturers, machine tools suppliers, raw material suppliers and the government. (<http://www.acma.in/president-acma.php>)

The pie chart shown below depicts according to the product range the % of Auto component industry in India.



http://www.acma.in/docmgr/ACMA_Presentation/ACMA_Presentation.pdf

PRESENT SCENARIO OF AUTOMOTIVE INDUSTRY IN INDIA

In India Automotive industry was started in late 40’s. In the last two decades there is good growth in this sector mainly due to globalization, liberalization which includes 100% Foreign Direct Investment in this sector.

Many global companies are motivated to invest in manufacturing and research and Development facilities in the country mainly due to availability of skilled labors at a cheaper rate, low production cost and emerging market. It is one of the world’s sixth largest producer in terms of value and volume in automobile products.

It contributes 4% of exports, 7% to India’s GDP, 39% of FDI inflow and 17% to total indirect taxes.

The quest of Indian automotive industry to succeed in global competitiveness is evident from the fact that it received Deming award for quality after Japan.

Seeing the significance of auto industry, which has grown enormously to contribute to the economic growth, the Indian government had come out with 2 documents- Auto policy 2002 and Auto mission plan 2006-16. The large automakers like Ford, Hyundai, Toyota etc. have set up their manufacturing facilities in India which has bought rapid growth of auto ancillary or component sector. Many global companies like Goetze-werke, Bosch, and Johnson Control have set ups in the country.

The above scenario shows that auto industry has substantial potential to grow. Thus it is important for the industry to gain competitive advantage through best practices in global value chain. (International Journal of Managing Value and Supply Chains (IJMVSC) Vol.5, No. 2, June 2014)

NEGATIVE GROWTH IN AUTO COMPONENT INDUSTRY IN 2013-14

Auto Component Industry has register first time revenue de-growth over a decade. There is 2.1% revenue fall in 2013-2014. ACMA reported a revenue of Rs. 2, 11,700 crore in FY 2013-14. Whereas in FY 2012-13 it was 2, 16,000 crore. The reason for the negative growth in revenue was due to high capital cost, fluctuations in currency, weak and slow vehicle

sales and high interest rate. All these factors have adversely impacted of the Auto component industry

According to vice president (ACMA) Ramesh Suri power and infrastructure are a concern and if these problems are taken care, then the future is bright in this industry.

The capital investment in Auto industry also had sharp dip. It was Rs. 3200-4400 crore in FY 2013-14 compared to FY 2012-13 Rs. 6900-9500 crore.

(<http://autocomponentsindia.com> dated July 17th 2014)

MAJOR ISSUES IN AUTOMOBILE SUPPLY CHAINS

Challenges or issues in automotive supply chain

Supply chain is the total integration of network of firms and coordination between them with regard to material, information and financial flows. Before the main concern of the supply chain was reducing inventory level and operating cost but now it is better customer satisfaction by improved services and speed of product delivery.

The automotive supply chain is very complicated and complex as a particular vehicle contains approximately 20,000 components and about 1000 sub-assemblies. It has many Tier like Tier 1,2 and Tier 3 suppliers or manufacturers with many dealerships and assembly operations. Not only has this customer had demand for different specific configuration and features which increases the complexity of the automobile supply chain. Therefore there is correlation between implementation of supply chain management and quality and conformance of design.

There is many trends which affects the supply chain in auto industry. According to Fishers supply chain should be designed on specific requirements of the product manufactured. This is important for the complex automotive industry where the manufacturer has to manage a network of several supply chains. It is very difficult for Indian auto industry to align supply chain practices with business strategies for reaping the advantage of competitiveness in an emerging market. the problem is due to its widespread linkages with different other industries

Trends impacting supply chain management

Trends on demand side	Trends on supply side
Growth which is uneven	Out sourcing countries with low cost
Importance of aftermarket services	Differentiated out sourcing
Fragmentation	Transparency
Accelerated volatility	Management of risk

In India auto industry spends 14% of its GDP on logistics, whereas Europe spends 10-11% and USA spends 9% and

approximately 22% of aggregate sales is tied up in inventories in the supply chains. Therefore logistic cost remains very high due to different factors like lack of third party logistics i.e. large specialized logistics firms which uses effective technology and also there is - lack of proper infrastructure. Thus the auto industry needs to check its supply chain process to become more competitors.

One decade ago cheap labour, good exchange rates and concessional duty & tariff were the factors for competitiveness, but today it is no longer relevant. what matters in today's globalised market is proper supply chain management. There should be strategic fit between the competitive strategy and the supply chain strategy of the organization to achieve business excellence. In India auto industry has to face business environmental factors as well as government policies in supply chain management to a large extent followed by cost advantage and supplier-buyer relationship.

Presently the auto industry is focusing on vendor development i.e. shifting the risk and responsibility to vendors, outsourcing of logistics, using IT for order placement and tracking and inventory management, implementation of lean production and JIT system in the organization.

Supply chain challenges can be grouped into risk management, visibility, cost reduction, increasing demand and globalization. The increase in demand in the last decade has put pressure on the existing auto component manufacturers to quickly adopt the modern global practices or standards and improve the supply chain processes. So the Indian auto industry has to revolutionize the technology and management thinking without impacting the brand image. The business environment in India is distinctly different from those in developed countries. There are many hurdles like transit in remote areas is difficult, large number of fragmented suppliers, complicated tariffs and custom duties, language and cultural diversity, quality challenges due short supply of resources and last but not the least multilevel distribution channels.

The biggest challenge is end -to-end supply chain followed by inbound logistics.

SMES IN AUTO COMPONENTS

SMEs in Auto Components are growing at the fastest rate within the SMEs category of industries. There is boom phase in this sector due to high demand from global automobiles manufacturers.

The survival and sustenance is still a major issue for the companies as they have to be the best in the global competitive environment. The Auto component SMEs should imbibe customer orientation, cost competitiveness to survive in the global market. At the same time they face challenges of being the SMEs, like

Low capital or investment

Poor technology

Zero knowledge of global competition

Poor infrastructural facilities

No awareness of business opportunity

(www.dnb.co.in/smes/smes.asp)

In Philippines SMEs are urged to tie up with auto parts suppliers

Local manufacturers are urged to be the part of the lucrative global value chain (GVCs) of the automotive Cos. The Motor Vehicle Parts Manufacturer Association of the Philippines (MVPMPA) had a meeting in April 2015, the president of MVPMPA feels that the SMEs needs support and backing , without which it is very hard to enter the global value chain. They need support of the car manufacturers, assemblers and the government to encourage production and convince the auto makers to invest in this country, this will boost the SME Sector in to global value chain

Philippines and Malaysia proposed SME for the automotive sector project on the 22nd Automotive Dialogue. This project will facilitate SMEs to see practical solution to attack economic barriers

Philippines Daily Inquirer April 27th, 2015
(<http://business.inquirer.net/190889/smes-urged-to-tie-up-with-auto-parts-suppliers>)

AUTOMOTIVE CLUSTERS IN INDIA

Delhi-National Capital Region (NCR), Chennai-Bangalore and Mumbai-Pune are the main clusters of automotive in India and many of the automotive component manufacturers are situated in these three clusters.

Number of estimated manufacturing units in these clusters

Location	Number of manufacturing units
Delhi (NCR)	250
Chennai-Bangalore	120
Mumbai-Pune	185

Source: ACMA

There is high automotive investment in these three clusters and also the main OE manufactures are located. One more reason for the formation of automotive clusters is the infrastructure problems like connectivity and communication problems, poor roads etc. Moreover the exiting OEMs have increased their production and this has attracted new

suppliers. Government has also set up vehicle testing facilities in each of the automotive cluster to fasten the procedures.

Mumbai-Pune has the large OEMs like Tata Motors, General Motors, DaimlerChrysler, Mahindra and Fiat in passenger cars whereas in commercial vehicles Tata Motors and Force Motors are present and in two wheelers Bajaj Auto and Kinetic. To supply these OEMs, there are large suppliers as well as a lot of smaller component manufacturers in these clusters.

The cluster in Delhi originated because of Maruti established its plant in Gurgaon and the Honda SIEL Motors are also based near Delhi. Delhi had one disadvantage i.e. it had large distance from the ports, this problem was solved by the government by setting up an inland container depot nearby to the cluster.

The Bangalore-Chennai cluster grew in the early 1990s with the manufacturers like Hyundai, Ford and Toyota setting up their manufacturing facilities in Chennai. The proximity to the Chennai port facilitates exports. There is Supplier Park in Bidadi region in Bangalore set up by Toyota; it is also headquarters of the India's largest automotive supplier Mico Bosch.

CONCLUSION

As we see ahead, it is the best time for Indian auto component manufacturers as the industry is growing at the tremendous speed. The future of the industry is very bright and is expected to grow in the next 10 years. To reap the benefit of this growth prospect, the industry needs to keep pace with global standards and competition. This will help the Indian SMEs to survive the rapidly changing competitive environment. Indian auto manufacturers are viewing the entire world market as an opportunity to grow. Moreover the implementation of the vision 2016 have made the state and central government to act in the interest of SMEs in auto industry.

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