

Motorizing India, the Maruti Suzuki Way

By Mukesh Williams



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Thirty years ago when Suzuki Motor Corporation Japan entered India at the invitation of the late Prime Minister Indira Gandhi, little did it realize that within a few decades it would motorize India and control a major segment of the passenger car market. In 2014 Maruti Suzuki India Limited (MSIL), as it is now called in India, sold over 8 million automobiles and exported 500,000 cars to Europe, Israel and other regions. It has now joined the elite club of car manufacturers that have sold over 1 million units in a year, such as Toyota, Volkswagen and General Motors. Today Maruti Suzuki is a ubiquitous business symbol of profitability and excellence. It represents a success model in India with the label “Made in Japan”. Although domestic Indian car manufacturers such as Hindustan Motors, Tata Motors, Premier Automobiles and Mahindra and Mahindra do have a sizeable presence in India, Maruti Suzuki controls about 40% of the market. The success of the Suzuki model depends on cutting-edge Japanese technology, new management architecture, leadership initiative, low-cost production, a large supplier network, after sales care and extensive repair and maintenance services. True to its slogan, Maruti Suzuki has defined “the way India drives” and will continue to do so in the years to come.

Small & Medium-Size Car Industry in the 1970s

The Indian small and medium-size car industry, which until the 1980s had remained untapped, is huge. Individual car owners were few and far between, often limited to lawyers, doctors and politicians. Usually the lumbering Hindustan Motors’ Ambassador or the classic Premier Automobiles’ Fiat was handed down through generations and became a family heirloom. Those who could not afford these expensive antediluvian models went for the ungainly Standard four-door saloon. Automobiles such as Rolls Royce, Mercedes and BMW were owned by maharajahs and family-rich elites, and could practically be counted on the fingers of one hand.

In his memoir *The Maruti Story: How a Public Sector Company Put India on Wheels* (2010), Maruti Suzuki Chairman R. C. Bhargava points out that the Indian car industry in the 1980s was sluggish due to “lack of competition” and “a huge gap between demand and supply”. Anybody could sell anything and people would buy as there was no choice. The idea of an affordable “people’s car” created a desire in the Indian middle class to improve their mode of transport. Maruti Suzuki came up with a solution to manufacture cheap and reliable passenger cars in the 1980s.

The Gandhi Legacy & Birth of a Dream

Maruti Suzuki is the legacy of the Gandhi family as both Indira Gandhi and her eldest son Sanjay Gandhi participated in the birth and development of the Indo-Japanese joint venture. Indira Gandhi felt the need to bring cutting-edge Japanese automobile technology to India after the tumultuous and scandal-ridden legacy of Maruti Limited. Her son Sanjay Gandhi was the managing director of the company in the 1970s and his subsequent death in a plane crash changed the scenario. It is commonly believed that Sanjay Gandhi was enamored of the name Maruti, which stands for the Indian god Hanuman who is both fast and powerful.

R. C. Bhargava acknowledges the sterling contribution of Indira Gandhi in promoting Maruti Udyog Limited in the introduction to his memoir:

The Congress government led by Indira Gandhi decided that a foreign partner would be roped in and allowed a 40 percent equity share. It was perhaps one of the very early steps towards economic liberalization — a government committed to a socialist economic programme and swearing by self-reliance opening a window for foreign investment, that too in a PSU (sic).

Bhargava gives credit to Indira Gandhi for making an early start towards “economic liberalization” and opening a “window” for “foreign investment” within a socialist agenda. Given the lackluster performance of the Indian government during this period even a bureaucrat like Bhargava was surprised and visibly relieved by the success of an impossible dream. The first chapter of his memoir is entitled “Assembling a Dream” which aptly describes the unfolding of the automobile dream. Undoubtedly Indira Gandhi used her influence to convince the government and private bodies to resurrect Maruti and bring in Suzuki as a collaborator in the small car industry in India. For this purpose she appointed Rajeev Gandhi and Arun Nehru to clear any bottlenecks or hurdles.

In February 1981 Maruti Udyog Limited (which later changed its name to MIUL) was established in the outskirts of Delhi through an act of parliament, giving the government of India a major share. This granted a license to MUL to modernize the Indian automobile industry by producing large quantities of fuel-efficient vehicles and thereby stimulate economic growth in the country.

The first fully assembled Japanese cars were imported in 1983. Indira Gandhi visited the Gurgaon factory in the same year and was presented with a miniature model of a Maruti car in silver filigree. She gave the keys of the car to the first Maruti 800 owner Harpal Singh who drove it to his

Green Park home in South Delhi. Bhargava remembers that in a highly emotional speech during the ceremony, Indira Gandhi said to the Japanese executives of Suzuki Motor Company, "Perhaps, you living across the oceans do not know the long history of vilification, falsehood, accusations and allegations that we had to face over it." She went on to talk of the arduous efforts Sanjay Gandhi made in realizing the impossible dream. Understandably it was an impossible dream in a country "seeped in socialism and centralized planning" as Bhargava points out.

Fusion of Japanese & Indian Management Styles

Obviously in the beginning it was difficult for the Japanese and Indians to work together. Different sensibilities and styles often clashed and led to friction, but over the years they were sorted out. The Japanese are "methodical and process driven" while Indians are "intuitive" and create a web of friendly relationships. *Forbes* magazine pointed out that from the beginning Japanese management exercised a tight control over the decision-making process of its foreign subsidiary which was felt by Indian joint managing directors such as Jagdish Khattar.

But as business improved and the Japanese became more confident about the profitability of their foreign venture they introduced more Indian managers in the new management system and the decision-making process. For Japanese managing directors like Shinzo Nakanishi, in the initial years business in India was easy but life was hard with few Japanese amenities. Telephone services were poor and Japanese restaurants did not exist. But as Japanese culture took root in India the local market became more competitive. Today people in Japan feel that Suzuki had the perspicacity to see profit in the automobile segment in the early 1980s, but Nakanishi believes that Suzuki was just "lucky". Today, according to *Forbes*, Suzuki's "lucky" venture in a Third World country has been contributing 13% of its total revenue since 2009 and 40% of its net profit.

Gurgaon & Manesar Manufacturing Units

In the early 1980s when Maruti Udyog Limited was established it produced 40,000 cars annually. These cars were mostly the Maruti 800 model. But now both the 300 acres Gurgaon manufacturing unit and 600 acres Manesar factory located near Delhi produce about 1.5 million cars annually. Both factories have the capacity to produce more.

Obviously the small 800 cc engine lacked power and could not support an air conditioning unit, which was rectified by the introduction of the Maruti Zen. In the early years of Maruti's advent the Zen was a much preferred car with those who had a little more money than the 300,000 yen that the 800 cc cost. Soon it was possible to buy a secondhand Zen from big urban centers like Delhi or Bombay at half the price. Though the sale of new and secondhand cars made Maruti Suzuki a profitable venture, it was able to survive due to both political patronage and the sagacity of its leaders.

Over the years Maruti Suzuki has weathered the storm of political corruption in the 1970s and continues to do so in the scandal-driven politics of India of the 21st century, thanks to the Gandhi legacy. Over time the joint venture between the Japanese auto company and India has changed. It began with a 51% share for Suzuki and the remainder for the Indian government, but Suzuki acquired a major stake in 2002 and now holds 54% of the company, while the government has decided to give full control to private financial institutions.

Most Popular Models

From 1981 to 2014 Maruti Suzuki has dominated the Indian automobile market through its most popular models, such as the Maruti 800, Alto 800 and Swift. The popularity of these three has to do with their cost effectiveness, reliability, innovative design and resale value. These models have changed the way the Indian middle class travel and conceive of their cities.

The success of the "iconic" Maruti 800 model in India had to do with its water-sealed chassis, light body weight, long-lasting tires, front-wheel maneuverability, excellent acceleration, low gasoline consumption and resale value. The initial introduction of the imported Maruti 800 in December 1983 revolutionized the small car industry and created a desire amongst the huge Indian middle class to possess a compact and affordable car.

Demand was further boosted by the increase in disposable income of nearly 2% of the poor entering the middle and upper classes annually and the rise of the new middle class. The Indian middle class began to desire a better life both due to safety concerns and convenience and wanted to move on from a bicycle or a two-wheeler to a small car. Within a decade 65% of the components used by Maruti cars were indigenously manufactured and repair facilities proliferated throughout India. By 2000 the cheap Maruti 800 was the most bought, resold and stolen car in India.

Over three decades the Maruti 800 (based on the Suzuki Fronte SS80 model and then changed to the Alto SB 308) sold around 2.87 million units. The model was phased out in 2010 and replaced by an upgraded version. The 800 cc model continues to be very popular among Indians even today. Khattar pointed out in *The Economic Times* (Dec. 24, 2008) that the Maruti 800 was undoubtedly an iconic car that "unified India" bringing "small towns and metros closer" — and brought better marriage proposals for the daughters of its owners. Obviously owning a Maruti 800 was not only a commuting necessity but also a status symbol for many.

S & S2 Technology Behind Swift's Popularity

Realizing the need for a small cost-effective hatchback, Maruti Suzuki introduced a concept car called the Swift in 2005 with a gasoline engine. It is believed that the Swift was created from ideas and research on the fastest Japanese motorcycle, the Suzuki Hayabusa developed in 1999. In 2001 the motorcycle was first converted into an automobile called the GSX-R/4 and had a high speed performance. In 2002 the automobile employed the S and S2 concepts involving technical alterations, streamlining and convertible features. With some changes in the caliber, transmission system and suspension gear, Maruti Suzuki's Swift model was created. Although it is on the expensive side, ranging between 1 million and 1.5 million yen, it is one of the most balanced and popular cars in India.

Alto 800's High Torque & Speed

Once small passenger cars were considered unsafe on lawless Indian roads and that was one of the reasons for the cumbersome and fuel-guzzling Hindustan Motors' Ambassador car as a preferred means of transportation. But the Maruti 800 has made driving both fashionable and cost effective.

However, with the increase in disposable incomes and other competing models coming out after 2000, Maruti Suzuki launched the

Profit & loss ratios to net sales

CHART 1

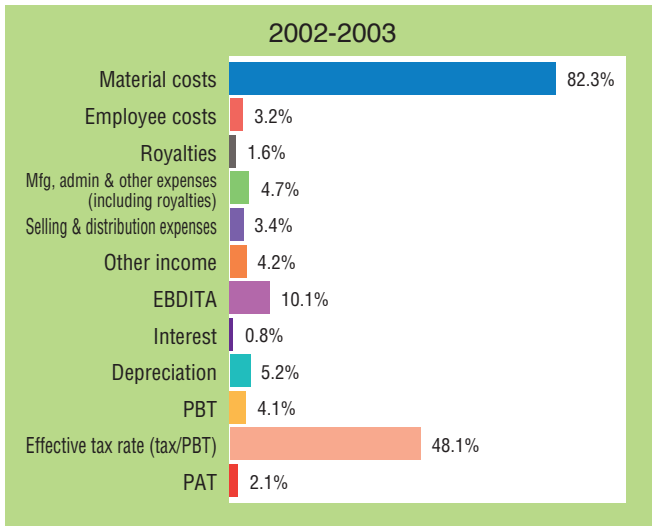
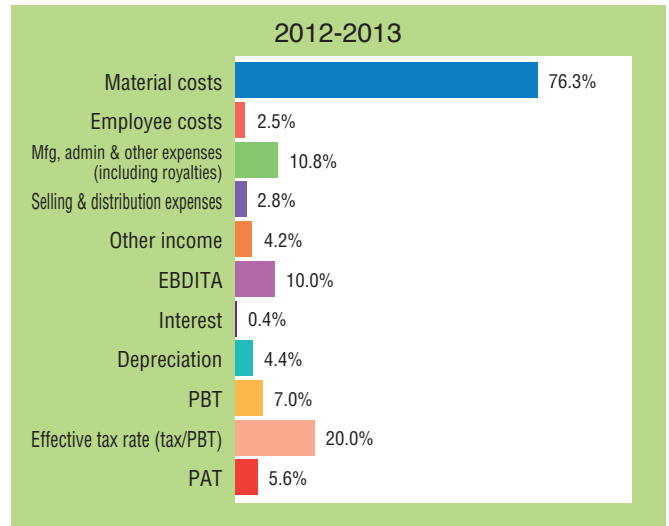


CHART 2



Note: EBDITA = Earnings Before Depreciation, Interest, Taxes & Amortization; PBT = Profit Before Tax; PAT = Profit After Tax.
Source: Maruti Suzuki India Ltd.

Alto 800 in October 2012 (both petrol and CNG engines). The Alto 800 is affordable at a price ranging from 400,000 to 600,000 yen. Fitted with a powerful 3-cylinder F8D 796 cc engine, the Alto 800 has both high torque and speed, and is much preferred on urban roads where drivers compete with each other for space.

Maruti Profit & Sales

A manufacturing company is evaluated on the basis of its sales and the profit it makes annually. It is also known by its innovative design and cost effectiveness. *The Economic Times* of May 19, 2014 reported that Maruti Suzuki's 2013 annual sales turnover was 43,587.90 crores (1 crore = 10,000,000 rupees) while profit for the year was 2,392.10 crores. It is doing extremely well not only by Indian standards but by global standards as well, as can be seen by its net profit and loss ratios to net sales in 2002-03 and 2012-13 (*Charts 1 & 2*).

Its net sales in 2005-06 were 120,034 million Indian rupees, while in 2012-13 it increased to 426,126 million Indian rupees. In April 2014 the company sold 86,196 units which included minis (M-800, Alto, A-Star, Wagon-R), compact (Swift, Estilo, Ritz and Celerio), super compact (Dzire), mid-size (SX4), executive (Kizashi), utility vehicles (Gypsy, Ertiga, Grand Vitara) and vans (Omni and Eeco). The figure also included export sales of 7,077 units to Europe.

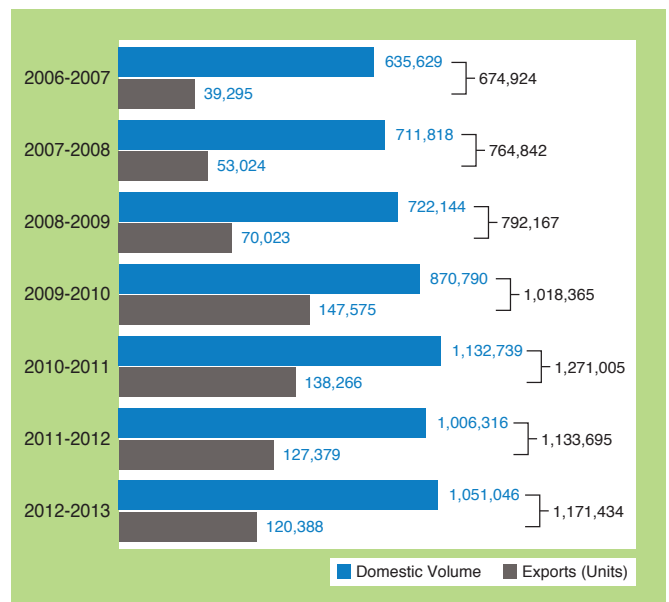
Maruti Suzuki's sales volume has steadily increased since 2007 (*Chart 3*). With annual sales of over 444,003 million rupees and profit after tax of 5,989 million rupees in 2012, Maruti employs over 3,500 workers, giving them a Japanese-created work environment and opportunity to develop their skills. It continues to dominate the small car segment and competition from indigenous car manufacturers like Tata Motors has been weak. Tata's budget mini car Nano has failed miserably, with sales of slightly above 10,000 units annually, while the Maruti Alto is the most popular 800 cc hatchback in India. But Maruti Suzuki's exports to foreign countries are not as large as Hyundai or Nissan Motors and it has to find ways to improve export figures. Perhaps aware of this drawback, Maruti Suzuki has begun exporting to Africa and Latin America where Maruti 800, Alto and Dzire models are selling well.

Motorizing India's Expanding Middle Class

In 2015 the Indian middle class is expected to constitute 20% of the total population of 1.2 billion. It would hit the 250 million-mark — about twice the population of Japan — and offer great prospects for the small car segment. Even if these figures are debated by McKinsey and others, it stands to reason that with rising prosperity and easy access to finance the "middle-middle" class and the upper middle class can now afford cheap automobiles. The demand for passenger cars continues to increase in India as the middle class expands and the need for four-wheelers increases. Even today there are seven cars per 1,000

CHART 3

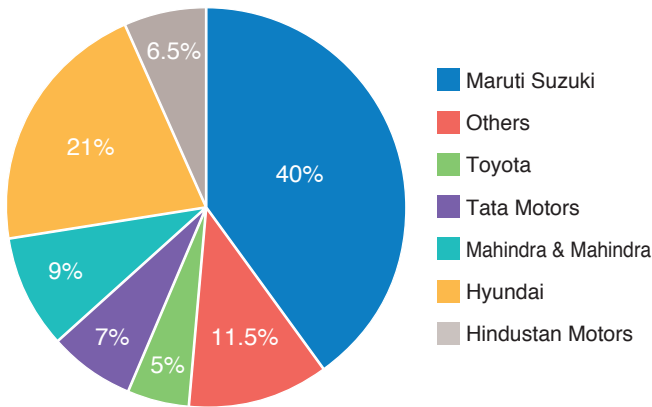
Sales volume



Source: Maruti Suzuki India Ltd.

CHART 4

Market share of automobile companies in India 2014



Source: Author

individuals. India's automobile industry is big and ever-expanding with production of over 11 million units annually. Though India is a new player in the area, beginning with annual sales of 4,000 vehicles in the 1950s, it already occupies 6th place in world automobile sales.

As the sizable disposable income of the new middle class increased, Maruti Suzuki created the luxury sedan Maruti 1000 in 1990 and then the premier hatchback Zen in 1993. Another sedan, the Esteem, was launched in 1994. The recent trade union problems in Manesar during 2011 and 2012 led to the firing of over 500 workers and an end to the recruitment of a contractual labor force at the plant.

However, this has not deterred the Maruti Suzuki management from doing business in India. It has devised a strategy to give members of the Gurgaon plant union a tour of a Suzuki factory in Japan, meet Chairman Osamu Suzuki and initiate a Japanese way of thinking and working. Its Indian chairman, S. C. Bhargava, strongly rebuts the insinuation that over the decades Maruti has moved away from Japanese-style management to a more punishing Chinese-style management. The answer to the mismatch in workers' demands and management's expectations is to introduce cross-cultural communication and management. All aspects of globalization are not hunky dory. Fitting into an alien culture requires both training and patience and these take time. In the initial years, however, the manufacturing units were neither so dissatisfied nor politicized and this led to the triumphant growth of Maruti Suzuki.

Leadership Role in Success of Maruti Project

The miraculous rise of Suzuki through bureaucratic red tape and political sleaze had to do with government patronage and the delicate maneuverings of both the Japanese and Indian CEOs from the 1980s to the present. They overhauled the management architecture, introduced participatory decision-making at all levels, and introduced higher levels of computerized automation and training of the Indian workforce by Japanese managers.

Managing Director and subsequent Chairman R. C. Bhargava, a mathematics graduate from Allahabad University, was awarded the Order of the Rising Sun, Gold and Silver Star by the Japanese emperor in 2011 for developing "economic relations" and "mutual understanding" between Japan and India. The citation emphasized his efforts to

introduce Japanese methods of "human development" and Japanese "business strategy" to develop the company. It is no mean achievement for an Indian to get such an honor from Japan.

Apart from able leadership, Japanese hybrid management techniques added to the success of the Maruti project. The concepts of punctuality, participation, performance-driven teams, time-bound tasks, quality-control task forces, open office architecture, uniforms, morning exercise and a common canteen for all improved both quality and production over time. Maruti Suzuki adopted a typical Japanese style work culture. Although the Japanese work culture of the 5 S's — *seiri* (sort), *seiton* (arrange) *seisou* (cleanliness), *seiketsu* (standardize) and *shitsuke* (self-discipline) — improved efficiency, it was often hard for Indian workers to follow. By placing pressure on its workforce to deliver better the Suzuki model helped to inspire innovation but forced some who could not cope with the pressure every day to leave.

Benefits of Globalizing the Automobile Industry

Globalizing the Indian automobile industry in the 1970s and deregulating the economic and business infrastructure introduced a new Japanese culture of efficiency, innovation and profitability in India through Suzuki Motor Company. The joint venture Maruti Suzuki Motor Company set up through the Gandhis in the 1980s has been able to reduce the cost of production through outsourcing and increase Indian employment in both the technical and non-technical sectors. The further relaxation of legislative rules by the Indian government related to foreign investment in Indian industry and India's greater reliance on the market and private sectors have given a new incentive to the automobile industry.

Customer's Delight & Shareholder's Wealth

Beginning as a minor partner of Maruti in the 1980s, Suzuki has motorized India and transformed the middle class into a mobile class. MSIL continues to create "customer's delight" and "shareholder's wealth" and has become the "pride of India". Being environmentally friendly it was awarded the Golden Peacock for environmental management in 2009.

Obviously Maruti Suzuki had some lucky breaks to reach to the top. Both politics and history played a significant role in providing these timely breaks which other automobile companies did not get. Other intrinsic advantages derived from Japanese technology and management followed. Beginning from the top of the business hierarchy, possessing advanced Japanese technology, using Japanese aesthetics, applying a new management philosophy and operating in an uncompetitive environment in the 1980s allowed Maruti Suzuki to become the top producer of small and medium-size cars in India.

Maruti Suzuki's track record in producing reliable and technically efficient cars is unmatched. Most Indians believe in Japanese technology more than they do in Korean. Maruti Suzuki is the foremost player in the small and medium-size car sectors and it will be hard to dislodge it from that position. But this position will be challenged by Korean company Hyundai in the coming years through price competition and equally efficient technology. Whether Maruti Suzuki will think globally and innovatively and take up the challenge, only time will tell. **JS**

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