

GOING PREMIUM THE NEXA WAY: HOW MARUTI SUZUKI WENT PREMIUM BY DIFFERENTIATING ITS DISTRIBUTION CHANNEL

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ABSTRACT

Maruti Suzuki is the market leader with more than 51% in Indian passenger car market. It has kept its leadership position for decades. But the problem it is facing now, is to target the well informed premium customers. The previous attempts to sell premium cars like Grand Vitara and Kizashi had failed in Indian market. In this scenario, this paper deals with the strategy of the launch of new dealership named NEXA under Maruti Suzuki. By differentiating its marketing mix through distribution channel, how Maruti Suzuki has gone premium forms the crux of this paper.

Keywords: Automobile, Maruti Suzuki, NEXA, Marketing, Marketing Mix, Distribution Channel

1 Introduction

Maruti Suzuki India Limited has been present in India since 1983. In the passenger car market, it has maintained its leadership position for the last few decades. As it came out with Maruti 800 as the first car, it has been perceived as a fuel efficient and affordable to the middle class. The same perception has led to a problem in selling premium cars to its customers. In this paper, the problem faced by Maruti Suzuki and subsequent measures in form of changing the distribution channel has been discussed.

1.1 Maruti Suzuki Today

Maruti Suzuki India Limited (MSIL) is the market leader with 51% market share in Indian passenger car market.¹ With a stake of 54.2%, MSIL is a subsidiary of Suzuki Corporation Limited. Currently it sells 16 different model of cars with more than 200 variants. It includes Ignis, Baleno, Ciaz, S-Cross, Swift, Dzire, Alto 800, Ertiga, Wagon R etc. In 2016, it sold 1,429,248 units of cars with revenue of \$9.1 billion. It has got 1947 dealers across 1471 cities and has a service network of 3,145 centres in 1506 cities in India.²

1.2 History of Maruti Suzuki

Maruti Suzuki India Ltd. was earlier known as Maruti Udyog Ltd. It came into existence as a result of a joint venture agreement between Govt. of India and Suzuki Corporation of Japan. In the beginning, Govt. of India owned 74% of the company, while the rest 26% was owned by

Suzuki. Right now, Govt. of India has no stake in Maruti Suzuki and is now owned by Suzuki Corporation of Japan.

Maruti Udyog Ltd. started operations with the launch of its small car – Maruti 800 in 1983. In India, at that point of time, only two cars Hindustan Ambassador and Premier Padmini were available. With focus on fuel efficiency and targeted at middle class, it started its journey strong. The first model Maruti 800 priced at around Rs. 50,000/- became a huge success. The demand, at that point of time, was so much that there was huge waiting to buy the car and the car was even sold in black market for twice the price.

Since then, the journey of Maruti Suzuki has been strong with the launches like Gypsy, Maruti 1000, Maruti Omni Van and so on. Right now, in Indian market, almost all the foreign players are present. Still it maintains the leadership position in the market.

Being fuel efficient to the core, Maruti Suzuki has advertised and promoted its cars heavily with television commercial campaign ‘Kitna Deti Hai?’ (How much it gives – mileage?). The same has also been continued till date and all the cars manufactured by Maruti has been very fuel efficient.

The same has also given the perception to the customers that Maruti Suzuki means affordable cars for middle class. To break the perception of being a small car maker, Maruti launched Grand Vitara XL7 in 2003 and then the updated model Grand Vitara in 2007. But both these models failed to make an impact in the premium segment. Maruti again tried the premium tag with Kizashi in 2011; but it has to discontinue the model in 2014 due to its lackluster demand. Both these models were priced above Rs. 10 Lacs and could make an impact in the Indian car market. Ultimately both were discontinued.

Now the question with Maruti Suzuki was grappling with, as to how to break the perception of small car manufacturer. Being the leader in the market, it was essential to upscale the customer base to enhance its portfolio of cars and also to improve the margins, which comes with the premium cars. It was also important from the viewpoint of selling more cars in India, by selling the cars in the categories, where they are not present. Again, Maruti has its target of selling 2 million units by 2020. Currently it stands at 1.4 million units in 2016.

To understand the same, let us check out the following table 1, which gives an insight about its product portfolio price range. During FY11, 88% of the revenue consisted of priced up to Rs. 600,000/-. So, it is clearly visible that the segment of cars sold by Maruti was mostly made up of small cars and targeted more towards middle class people. IN this price bucket, up to Rs. 400,000/- price bucket has been dominating its sales. But a healthy sign is that the same has been decreasing over the years.

Table 1: Maruti Suzuki Product Mix (On the basis of Price / In %)

Year / Price	Upto 400K	400-600K	600-800K	800K
FY11	69	19	10	2
FY12	65	22	11	2
FY13	52	23	23	1
FY14	52	24	24	0
FY15	47	26	23	3
FY16	44	23	26	6
FY17E	41	20	33	7
FY18E	40	20	34	6

Source: Motilal Oswal Annual Research Update, Sector – Automobile, Maruti Suzuki, 24 August, 2016

The price bucket Rs. 400,000/- to Rs. 600,000/- has almost been stagnant at around 20% for the last two years. But, the best part is that there is a steady increase in the price bucket of Rs. 600,000/- to Rs. 800,000/- from a meagre 10% to 33% estimated in FY17. With car models like Ciaz, S-Cross, Vitara Brezza, the top price bracket is also hovering around 6% to 7%. In the last few years, the traction in the top price bracket is also due to its NEXA dealership base. The change is clearly visible from FY15, when NEXA was launched.

Taking all this in account, Maruti Suzuki had to come out with a strategy to counter its small car maker and middle class perception. The same can only be done with the help of marketing mix. So, the answer lies in the 4Ps of marketing. Let us check out marketing mix and try to look for the answer for Maruti Suzuki.

1.3 Marketing Mix

‘The marketing mix is the set of marketing tools the firm uses to pursue its marketing objectives in the target market.’ - Neil H. Borden³

As it is obvious from the quotation by Neil Borden, a company may use the tools under marketing mix to pursue its objectives in the target market. So, what is the objective of Maruti Suzuki? The objective is to change the perception and to sell premium cars to the customers. Now, it can only be achieved by tweaking the set of marketing tools.

Under marketing mix, E. Jerome McCarthy has given the famous 4Ps of Marketing.⁴

1. **Product,**
2. **Price,**
3. **Place and**
4. **Promotion**

These four P's represent the set of marketing tools into four broad groups from the seller's point of view. Out of these four P's, a company can change its price and advertising and promotions in the short term. But it can change the product or can develop a new product or can modify the place i.e. distribution channel, only in the long run.

Let us check out these Ps one by one, to understand what kind of tweaks in marketing mix, Maruti Suzuki has adapted.

1. Product – As you know, product is the starting point for marketing, as it can fulfill the needs of the customers. So, the question is, is it possible for Maruti Suzuki to develop a new car? The answer is yes. But Maruti Suzuki is not facing the problem of manufacturing cars, but they are struggling with the perception of being a small car maker and consumers are not interested in buying premium cars from them. They have tried it twice in terms of Grand Vitara and Kizashi launch, but both the cars failed in the Indian market. So, perhaps the new product is not the answer. The product can be developed by Maruti Suzuki, but the customers should be ready to buy it.

2. Price – So, is price the answer, which Maruti Suzuki is looking out for? No, pricing is not the issue here. As customers are ready to buy a car much costlier than what Maruti Suzuki can offer. But they don't want to buy a premium car from Maruti Suzuki. Secondly, Maruti can always price its cars competitively, as it has the volume and scale in manufacturing.

3. Place – So, let us check out the third one i.e. Place. Place means a marketing channel or trade channel or a distribution channel to reach out to the customers. Marketing channels are sets of interdependent organisations involved in the process of making a product or service available for use or consumption.⁵

Can place be the answer, Maruti Suzuki has been looking out to. Yes, Place can be. So, Maruti Suzuki came out with a strategy of exclusive dealership model named 'NEXA', to sell its premium products. Maruti Suzuki launched a premium retail channel NEXA on July 23, 2015, to target especially in metros and tier 2 cities.⁶ NEXA is designed to meet the changing needs and expectations of urban customers, and should enable the company to attract new categories of buyers into its fold.⁷ Under this new dealership, Maruti planned to sell exclusive cars, which won't be available through regular dealerships. NEXA launch coincided with the launch of a new car – S-Cross in the price bucket of Rs. 8.34 lacs to 13.74 Lacs. Thereafter, NEXA started selling Baleno, Ciaz and Ignis. NEXA catered to the high end customers, who have gone beyond their first cars and looking for an experience.⁸ NEXA was designed to deliver a premium experience to the customers.

1.4 Salient Feature of NEXA

Following are the salient features of NEXA.

- NEXA showrooms followed Black and White theme for being premium and for exclusivity. It also ensured that the focus to be there on cars, not on the décor.
- Personal care, warmth and attention in car buying and ownership experience was ensured in these dealerships.
- NEXA dealerships were completely paperless. In NEXA showrooms, convenience offered to the customers, was boosted through the use of technology. For instance, a customer who wishes to get informed about the competitive models is led to it with the use of I-Pad connected to Apple T.V.⁹
- To instill the upmarket customer experience, NEXA Relationship Managers were dressed in suits and tie with iPads.
- Relationship managers were hired from sectors such as hospitality, financial services and aviation to offer a luxury car buying experience.¹⁰
- In the beginning, 1000 Relationship Managers were hired and Maruti planned to hire another 1500 managers by 2017.
- Car delivery was also made inside the showroom, unlike other car dealerships. It was also done, to create an experience for the buyers.
- Maruti Suzuki planned to open 100 outlets by March, 2016 and 200 outlets by March, 2017.¹¹

5. Promotion – To support its Nexa channel, Maruti Suzuki advertised heavily in print, television, outdoor as well as digital media. The promotion for Nexa range of channels as well as products launched through NEXA i.e. S-Cross and Baleno were promoted heavily in the first six months of its launch. For the launch, three teasers with three films were showcased to build the grand experience.

Thus, while designing a upmarket and premium dealership, Maruti Suzuki took care of its third P – Place well. The place P was also fortified by new products like S- Cross, Baleno, Ignis, competitive pricing and adequate advertising and promotion support.

1.5 Managing Channel Conflict

On the whole, Maruti Suzuki played its Place card to change the perception of the buyers through several initiatives and industry first measures under NEXA. But, in managing marketing channels, there is always scope for a conflict on the horizontal channel level. To avoid this conflict, NEXA dealerships were assigned to the existing dealers. But the experience at NEXA, was completely managed by Maruti Suzuki itself. Secondly, if there was a reference from a Maruti Suzuki dealership to NEXA, Rs. 15,000/- were paid to the dealer, if the referred customer bought the car from NEXA.¹²

1.6 NEXA Today and Tomorrow

Form the table 2 below, it's obvious that till financial year 2016, Maruti Suzuki were having 1947 dealers inclusive of NEXA dealership, across 1471 cities in India. Out of these, 127 dealerships belonged to NEXA. Till Dec., 2016, Maruti Suzuki was having 197 NEXA outlets in 197 cities.¹³

Sales and Service Outlets of Maruti Suzuki

Outlet	No. of Outlets	No. of Cities
Sales (Incl. NEXA)	1,947	1,471
Service	3,145	1,506
True Value	1,007	770

Source: Motilal Oswal Annual Research Update, Sector – Automobile, Maruti Suzuki, 24 August, 2016
Currently NEXA dealerships contributes to 10% of overall sales of Maruti Suzuki and the target is to increase it to 15-17% over next few years. In NEXA, currently four models of cars are sold. These are S-Cross, Baleno, Ignis and Ciaz. Recently Ciaz was shifted from normal distribution mode to NEXA distribution mode.

1.7 Conclusion

Maruti Suzuki has been successful with its strategy of differentiating the distribution channel in the form of NEXA. The same has been obvious with the growing number of vehicles sold by NEXA and subsequently generating revenue to the tune of 10%, with almost only two cars – S-Cross and Baleno. The car models – Ignis and Ciaz has been launched recently in FY 17-18; which is again going to impact Maruti Suzuki favourably.

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