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Shift of Indian Passenger Vehicles' Demand to SUV's

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ABSTRACT

The ever-growing market for passenger vehicles in India is currently going through a phase of increased demand for Sports Utility Vehicles (SUVs). The aim of this research is to analyse the data from previous research and their conclusions and verify it and drawing our own conclusions through a survey of Indians who have the disposable income available to them for the purchase of passenger cars. The main reasons for this shift were found to be the greater reliability and ground clearance, the higher perceived safety of SUVs in comparison to other vehicles such as sedans and hatchbacks and the growth of hybrids and electric vehicles contributing to the growth of SUVs. For greater ease of understanding, the factors affecting this shift have been further classified into 'Industry Trends' and 'Consumer Understanding' heads.

KEYWORDS: *SUVs, Passenger Vehicles, Automobiles, Growth of SUVs, Demand of SUVs, Shift to SUVs, Indian Automobile Market*

Introduction

The Indian automotive market is witnessing a growing demand for Sports Utility Vehicles (SUVs), driven by changing consumer preferences and industry trends. This research aims to explore the reasons behind this shift by reviewing previous studies and conducting a survey of Indian consumers with disposable income. Key factors contributing to the rise of SUVs include their higher ground clearance, greater reliability, perceived safety, and the increasing availability of hybrid and electric SUV models. The study categorizes these influences under two main areas: "Industry Trends" and "Consumer Understanding."

Growth of Passenger Vehicles' Demand

Impact of Economic Liberalisation

Since the economic boom of India in the 1990s, resulting in globalisation and freedom of markets, the disposable income of Indians has kept on increasing (Prasad, 2016). The Indian Government also allowed Foreign Direct Investment with an equity cap during the same time, allowing all the automobile giants to enter the Indian market, which provided multiple different models without the high delivery times. A big reason for their entrance in India was, and still is, the ever-expanding market and low manufacturing costs. With this increase in disposable income came an increase in demand for cars, backed up by the urbanisation and want for leisure travel. This means that the passenger car industry is constantly growing in a developing country like India, unlike a developed country like the United States of America, where it has reached its peak.
India's automobile industry is growing faster in value compared to the quantity produced (Kumar, 2024). The passenger car sales volume and value experienced a decline of 9% and 4%, despite an increase in price of 5%. Out of the industry's 10.2 trillion value, four-wheeler passenger vehicles contributed towards 63% of the same, out of which utility vehicles contributed towards 46% of the total industrial value despite being only 10% of the production value.

Impact of the Pandemic

Now looking at the domestic sales graph of passenger cars we can observe a steady growth in the market up until 2018-2019, after which the graph begins on a downward slope due to decline in sales of automobiles while the pandemic was at its peak (Society of Indian Automobile Manufacturers, 2024).

In 2021-2022, when the pandemic was subsiding and fear was slowly coming off the minds of consumers, sales began to increase again and a big surge is seen in 2022-2023 as consumers who would have normally bought a new car in the period of 2019-2021 if there wasn't a pandemic, all flood to dealerships to buy cars in this year instead. This can be seen in the graph below, where the years during which the pandemic was active have been coloured in red.

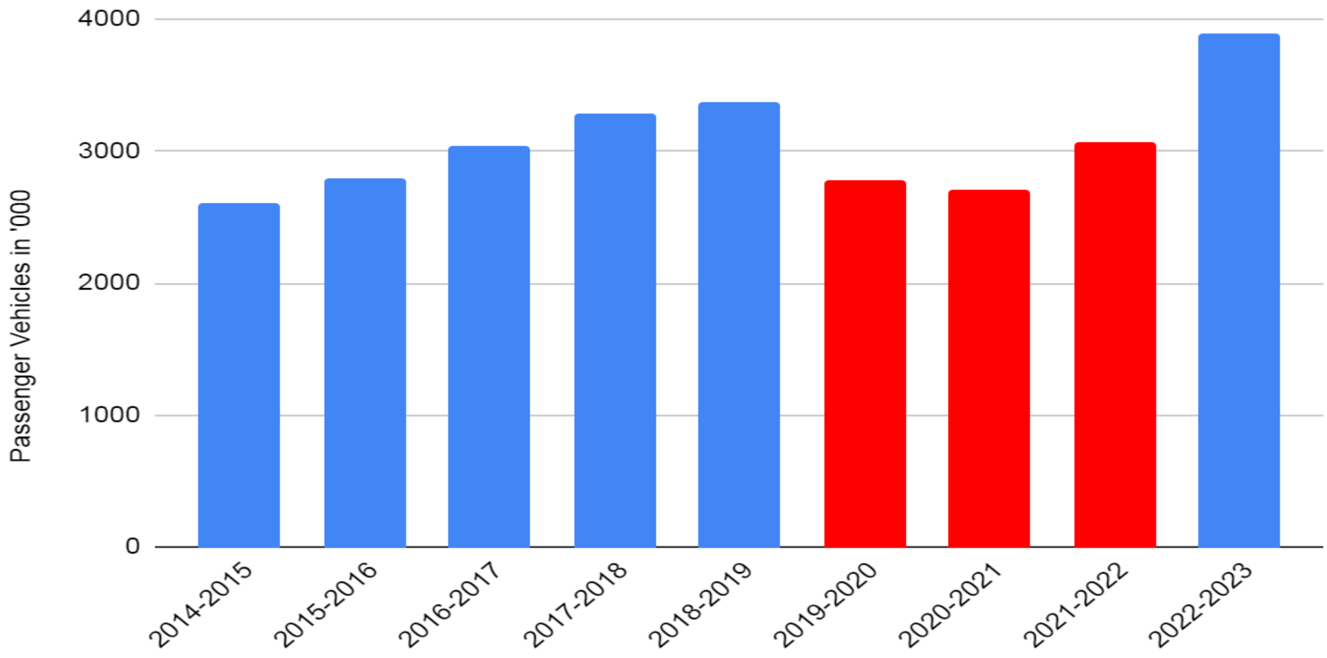

Chart-1: Domestic Sales of Passenger Vehicles by Society of Indian Automobile Manufacturers, 2024

SUV Sales Growth

Compact SUVs have risen to become the largest sector, in terms of sales, in the passenger vehicle industry (Anonymous, 2022). From making up only 5% of the market share in FY16 to almost 22% in FY22, overtaking the premium hatchbacks, whose market share fell from 24% in FY21 to 21% in FY22. The complete SUV segment grew to almost 40% in FY22 from a mere 17% in FY16. The SUV segment has experienced a constant rise since the past 4 years, topping at 50.4% in FY24, almost double its previous market share of 26.3% in FY20 (Doval, 2024). Hatchbacks on the other hand have seen a decrease in market share, from being 45.6% of the market share in FY21 to reducing to about three-fifths of the same in a span of three years, with a mere market share of 27.7% in FY24. Sedans have also gone through a decrease in market share, but at a significantly lower rate than hatchbacks.

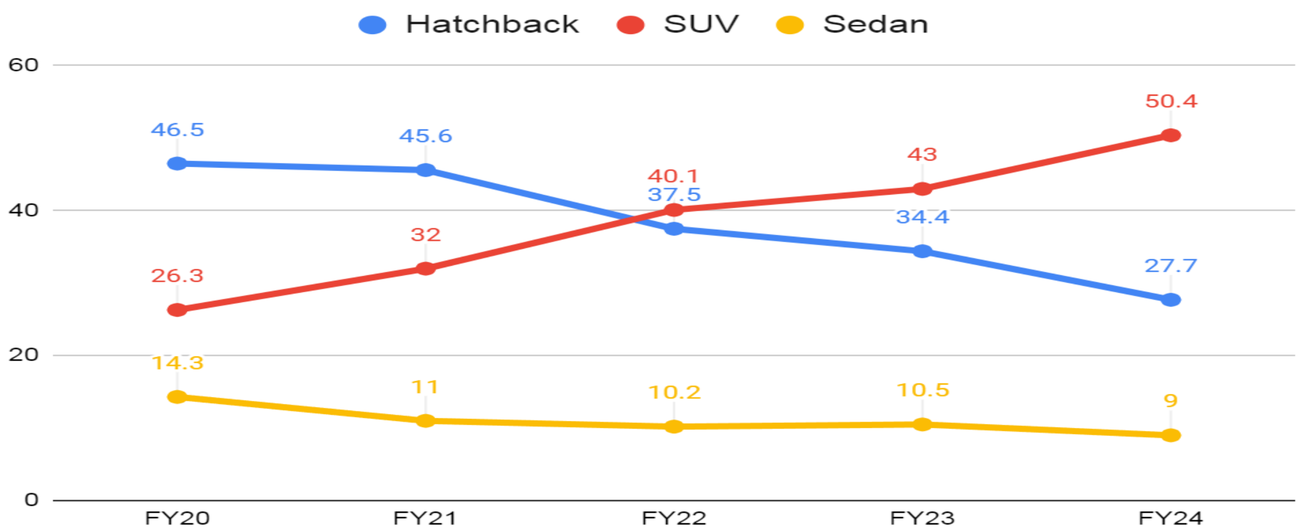

Chart-2: Market Share of Different Passenger Vehicles by Doval, 2024

Industry Trends

New Players and New Strategies - How Kia and MG Motor Survived and Thrived

In 2019, Kia Motor and SAIC Motor (through its subsidiary MG Motor), entered the Indian automobile industry (Autobei, 2021). Both of them chose an SUV to be the first car to enter the Indian market, paving the way to their success in the country.

Kia started off with its 'Seltos' in July 2019, an SUV, in an attempt to capture the Indian passenger vehicle market, which was just shifting from hatchbacks to SUVs (Prathik Desai et al., 2022).
Their success increased further in India with the launch of the 'Sonet', another compact SUV which got a great response from the Indian market.
Kia had understood the shift of Indian consumers' demands, from heavily price dependent to becoming slightly flexible with the price in exchange for the latest design, technology and features. Kia managed to provide this new breed of Indian consumers exactly what they wanted, while other brands like Tata and Mahindra were still in the process of changing their car line-ups to meet the needs of this consumer.
MG Motor followed a similar strategy, starting off in India with 'the Hector', an SUV created for the Indian market, which received more than 50,000 bookings in a span of just 8 months since its entry in India (Mishra, 2020). They realised the untapped market India was and targeted not just tier-1 cities, but also ensured there were dealers in tier-2 cities as well. They wanted to create a perception of their cars as 'tech-focused SUVs' in the minds of the Indian consumers, exemplifying this in their advertisements featuring their internet connectivity- showing consumers how they could control almost everything in their car from their phones.
They were also able to counter the notion of SUVs being high maintenance vehicles by providing different maintenance plans to their customers, on top of the first 5 services being free of cost. Most importantly, it offered a 5 year, unlimited kilometre warranty to their customers, which increased the consumers' trust in the car even more.

Shift of companies' focus to SUVs

Looking at Kia and MG Motor's success due to the shift in the Indian market, other automobile brands also changed their car line-ups and marketing towards SUVs.
Tata Motors understood the need of the hour and decided to upgrade its EV line-up. In January 2020, the Tata Nexon EV, an electric version of the well-known Nexon, was released (Tata Motors, n.d.), with an extended-range version of the same, Tata Nexon EV Max, being released 2 years later in May 2020. In the year 2021, the Tata Safari, a three-row SUV based on the Harrier, was released in February, the Tata Tiago NRG, a compact SUV inspired from the hatchback version of the Tiago, was released in August 2021 and the Tata Punch, a compact SUV built for urban travel, was released in October 2021.
Mahindra saw the shift in the market as well and followed suit. In October 2020, it launched the second generation of the Thar, in both petrol and diesel variants (Mahindra Auto, n.d.). In 2021, it brought an upgrade to its compact SUV line up with the Bolero Neo in July, an update inspired from the TUV300, and released the XUV300 Turbos port, a subcompact SUV in October. In the same year, it also launched a mid-size SUV, namely the XUV700 in August, in 5-seater and 7-seater configurations available. The Scorpio-N was released in June 2022, another car catering to the consumers looking for the rugged feel. An EV released by them was the XUV400 in January 2023, another compact SUV to fulfil the needs of the growing SUV customer base.

EVs and Hybrids- How SUVs became interlinked with them

SUVs made up nearly 50% of global car sales in 2023, due to factors like their potential for comfort and versatility (Cozzi, 2024). Also, more than 55% of new electric car registrations were SUVs, showing a significant relation in the increase of electric vehicles and growth of the SUV market.
Another relation was observed where a rise in electric vehicles and hybrids was linked with an increase in demand for AWD, all wheel drive, systems, which are usually present in SUVs (Electric Vehicle Market Size, Share & Trends Analysis Report by Type, (Scooters, Motorcycles, Three Wheelers, Among Others), by Propulsion Type, by Drive Type, by Vehicle Speed, by Vehicle Class, by End-use, by Region, and Segment Forecasts, 2024 - 2030, n.d.).
Hybrid passenger vehicles, including both hybrid electric vehicles (HEVs) and plug-in hybrid vehicles (PHEVs), are being increasingly demanded in India, partly due to their lower emissions, but mainly due to their improved fuel efficiency (India Hybrid Vehicles Market Insights, n.d.). This has caused many automobile manufacturers to introduce hybrid versions of their SUVs, combining the demands for better features, utility and reliability provided by SUVs while eliminating the poor fuel economy with hybrid powered engines.
The rising price of fuel, both petrol and diesel, in India, has only increased the demand for more fuel-efficient cars, which in turn has increased the demand for hybrid and electric powered SUVs (Techsci Research pvt ltd, 2022).

Consumer Understanding

Change in Consumers' Demographic

There has been a great change in the demographic of consumers of passenger vehicles, mainly on the basis of their age and residency (Anonymous, 2022). The average newer consumer tends to lie between the age group of 25-35 and comes from tier-1 and tier-2 cities. This consumer is smart, progressive and usually looking for a first car or an upgrade from a hatchback. Their buying criteria has also changed from focusing on style, design and brand to technology and features of the car itself.

The Comfort Factor

One of the biggest reasons which attracted consumers towards SUVs earlier as well was the increased comfort they provided through their spacious interiors and better ground clearance, which is especially useful for the underdeveloped Indian roads (Kumar, 2024). These features became more sought after as the consumer demographic evolved, favouring SUVs, or more specifically, compact SUVs. Compact SUVs give the consumer a taste of the basic amenities offered by SUVs, at a price which is comparable to some premium sedans and hatchbacks.

SUVs- Symbols of Status and Safety

In India, a big factor for the purchase of luxury goods is their brand values and brand image in the minds of the consumers (Prasanna, 2013). Most customers would be more comfortable with repeating a purchase from the same brand if they have heard good things about it or have a good experience with it in the past.

Apart from this, a big reason for sticking to the popular or well renowned car brands is due to the sense of security, social approval and self-respect they feel when utilising their car. So, as most well-renowned companies started to shift their car-line up and marketing focus towards SUVs, many consumers also followed their brands through this change.

This safety felt by the consumers while buying an SUV is not just perceived but also true for impact-based accidents, where SUVs have a greater survival rate (Subramanian & Muthu, 2018). Also, most SUVs come with features such as ABS, blind-spot detection, rear parking assistant just to name a few. This does not necessarily mean that they are completely safe; while the crash safety may be higher due to their greater size, their tendency to roll over is greater, causing more fatalities due to the same in the long run. But usually, consumers focus more on the greater safety provided by SUVs in terms of impact-based accidents than on their roll over tendencies, causing the perception of greater safety to be associated with SUVs.

The main factors that affect consumers' buying decisions can be broadly grouped as- brand, price, design, quality, utility and technical consideration (Thangam et al., 2018). All of these together form the perceived value of the car in the mind of the customer, which in turn has a statistically significant relationship with the purchasing decision as well.

Research conducted by Mathur et al in 2018 found that there were two main characteristics which consumers in the passenger vehicle market looked for- the image of the brand and the type of cars and manufacturers. However, other features such as the engine type and efficiency or successful advertisement can also affect the buying decisions of a consumer.

Survey of Indian Automobile Consumers

Aim of the survey

The aim of the survey is to understand the shift in the average Indian car consumers demand at a smaller scale, to provide primary data as a means for comparison with the data analysed at a large scale.

Hypothesis

The survey conducted should verify the final interpretation of the quantitative data analysed, while providing some margin of difference which is inevitable due to the variances with the shift to a smaller sample space.

Preface

In India all Sports Utility Vehicles (SUVs) and Multi Utility Vehicles (MUVs) are both colloquially referred to as SUVs, so in the survey, the term SUVs refers to both MUVs and SUVs.

Demographic of Sample Group and Data Collection Methodology

The survey was conducted through the means of a google form, which was distributed to adults from the age group of 25-70, all of whom were either current owners of a car or were considering buying a car in the near future. The respondents mainly consisted of residents of Delhi and the remaining were residents of other tier-1 and tier-2 cities of India.

Limitations of the Survey

As the sample group is mainly concentrated with consumers living in tier-1 and tier-2 cities, mainly concentrated in the middle and upper-middle income groups, the data may be biassed towards the preferences of this group and the preferences of consumers living in rural areas as well as consumers lying in the extremities of the income groups may not be accurately represented.

Analysis of Data

The survey consisted of 10 objective questions, receiving a total of 208 responses. To avoid unnecessary complexity, the analysis for each question has been provided separately in lieu of grouping similar questions together. Horizontal bar graphs represent questions where respondents could only choose one option whereas vertical bar graphs represent questions where multiple options could be chosen.

Do you currently own an SUV?

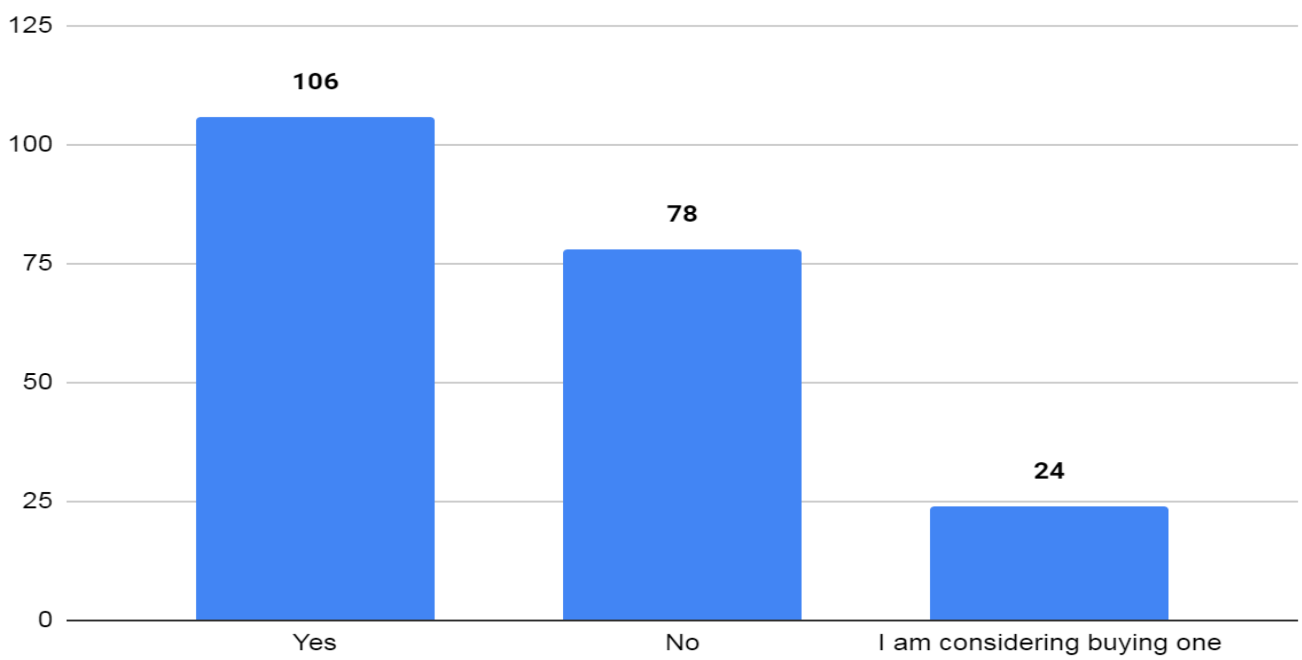

Chart-3

As was expected, most respondents either already own an SUV or are considering buying one themselves, though 11.5% of the respondents have completely ruled out SUVs while considering purchasing a passenger vehicle in the future.

Compared to the past few years, are you more likely to buy an SUV today?

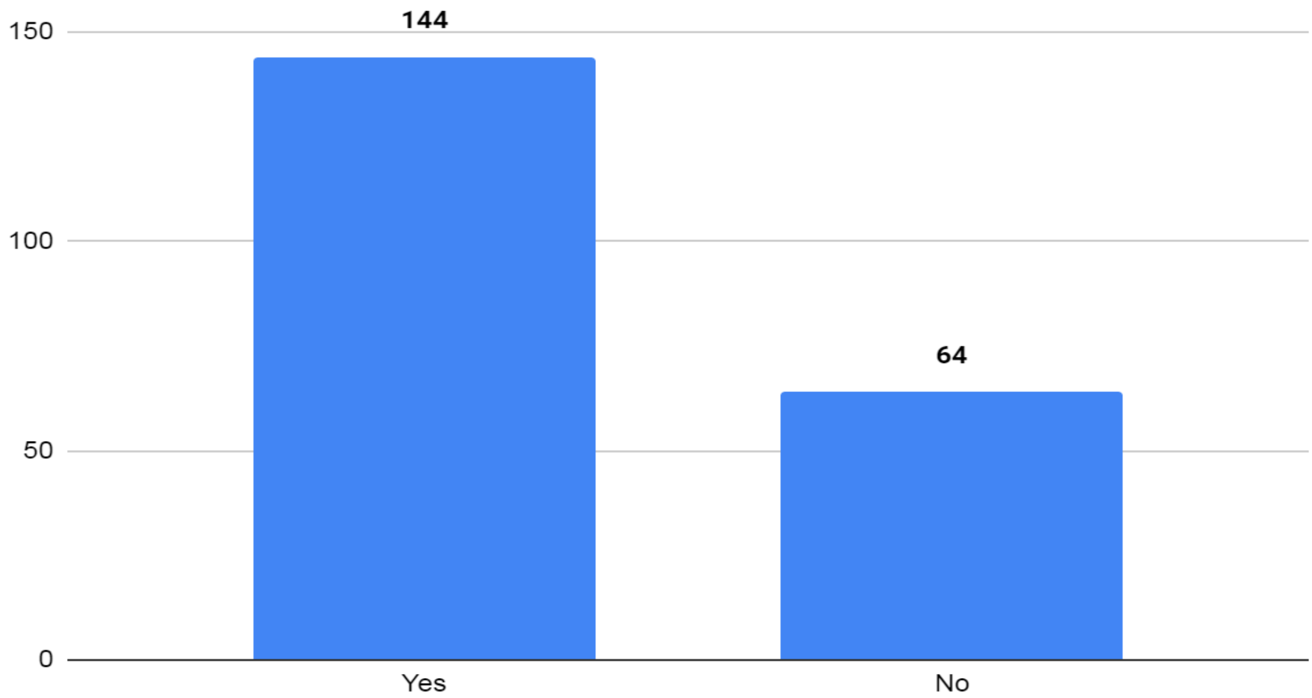

Chart-4

This question verifies our earlier interpretation of quantitative data, where it was concluded that SUVs have become more popular in the past few years. Here, it can be observed that 69.2% of the respondents have said that they have become more likely to buy an SUV from the past few years.

What do you mainly use your car for?

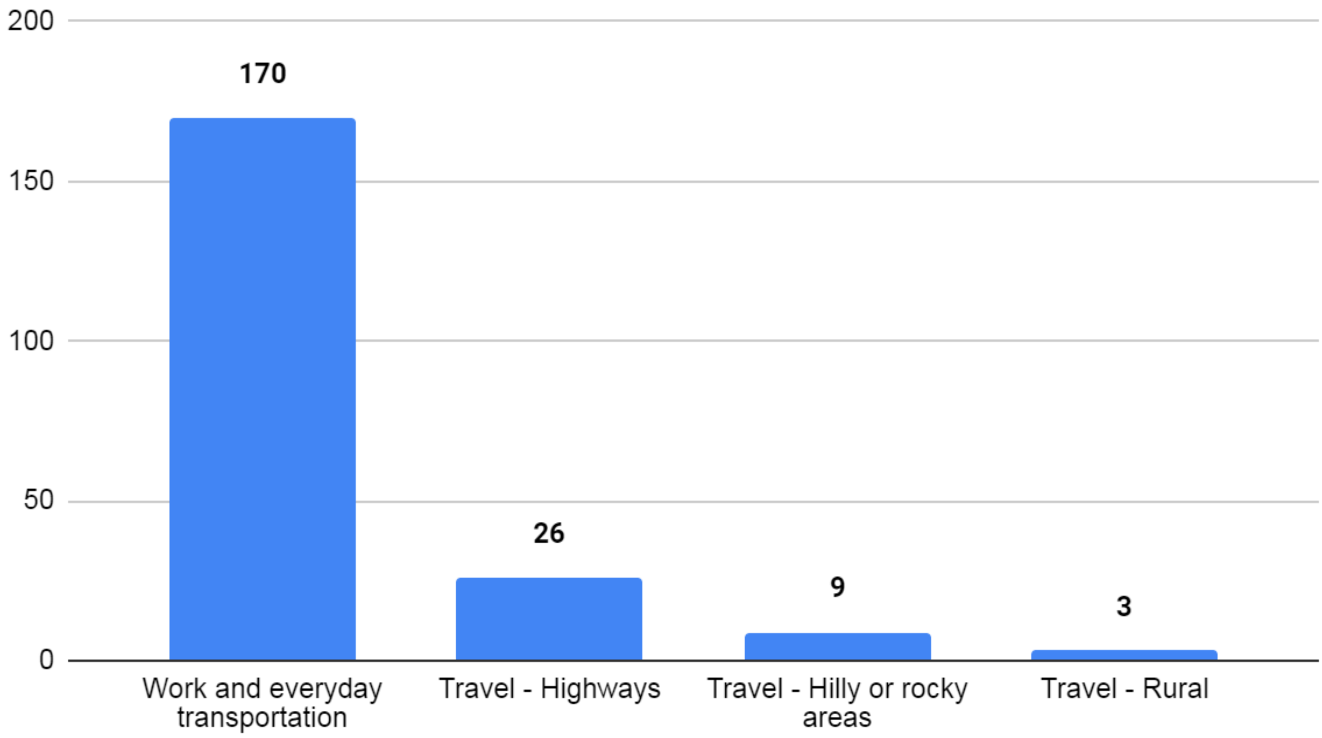

Chart-5

As the majority of respondents were located in New Delhi and other tier-1 and tier-2 cities, it comes as no surprise that the majority of users use their cars for everyday transportation or highway travel, with a very small proportion using their cars for hilly travel. The number of respondents using their cars for travelling in rural areas are negligible and thus will not be used to make conclusions in the analysis.

Apart from price, what are the most important features for you while buying a car?

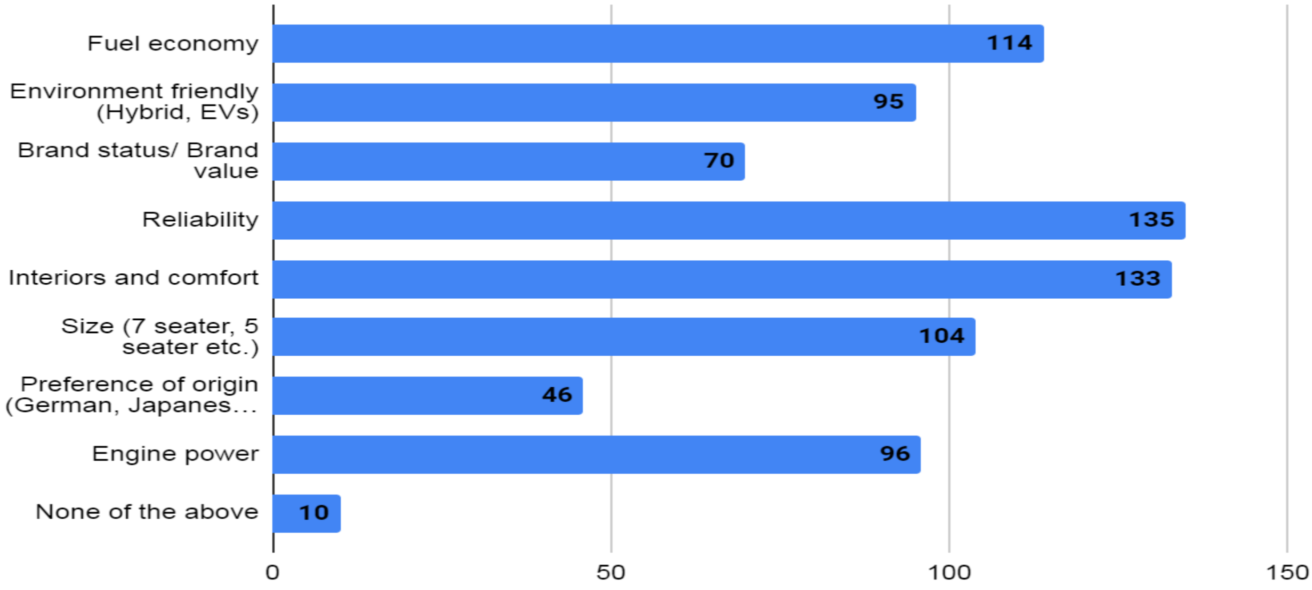

Chart-6

Here, our earlier inference of the consumers' focus on reliability, comfort as well as fuel economy is verified through almost two-thirds of the respondents showing their interest in these areas. A surprising observation is that even though only 9 respondents said that they used their cars for hilly travel in the previous question, 46.2% of the respondents have said that the engine power is an important feature for them. Apart from this, the new consumer demographic's choices can be through the lack of importance given to the brand status and value as well as the place of origin.

What features of SUVs do you consider to be most useful?

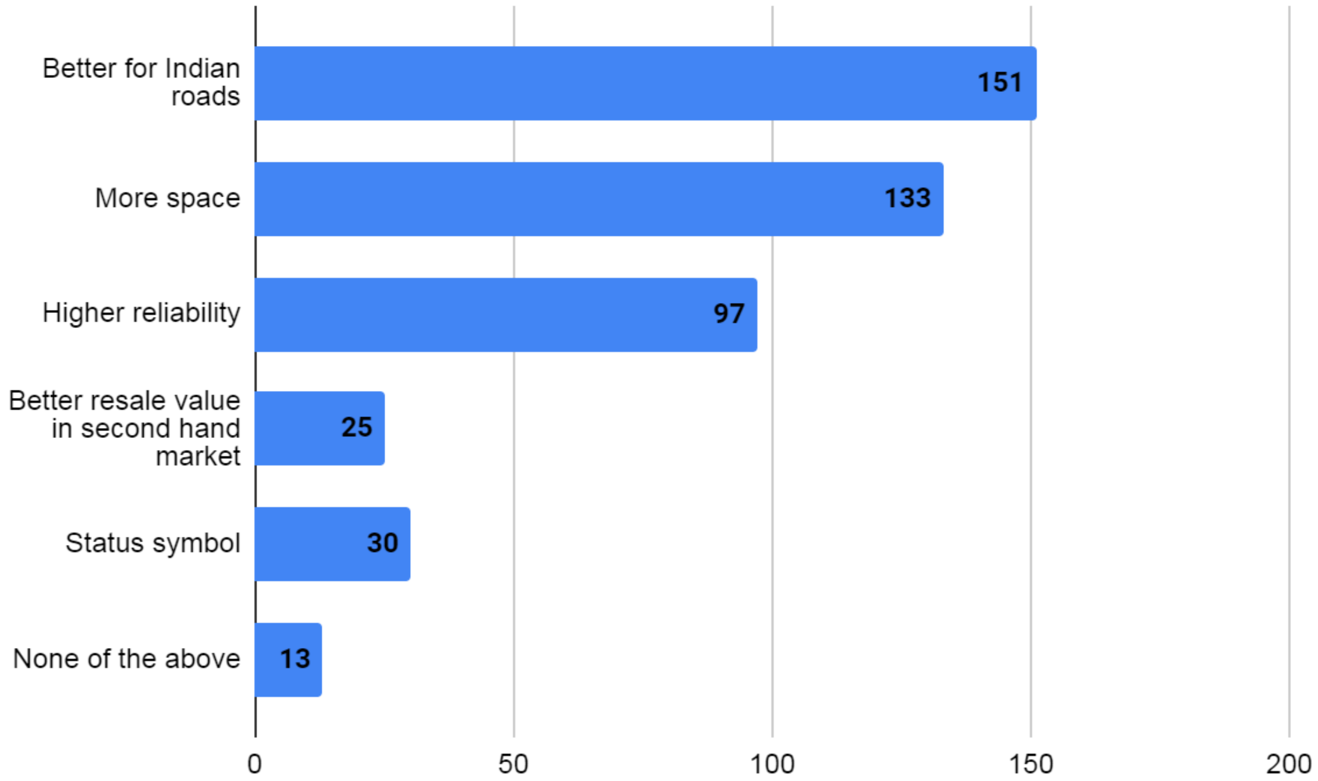

Chart-7

The respondents have again verified our findings with respect to the Indian consumers preferring SUVs due to their greater space, higher reliability and greater performance on the underdeveloped Indian roads. A surprising result was that even though 33.7% of the respondents had considered brand value and status an important feature while choosing a car, only 14.4% of respondents had considered SUVs as a status themselves or given it importance while considering their purchase.

Before hybrids and EVs, was the poor fuel economy of SUVs a big factor while considering them?

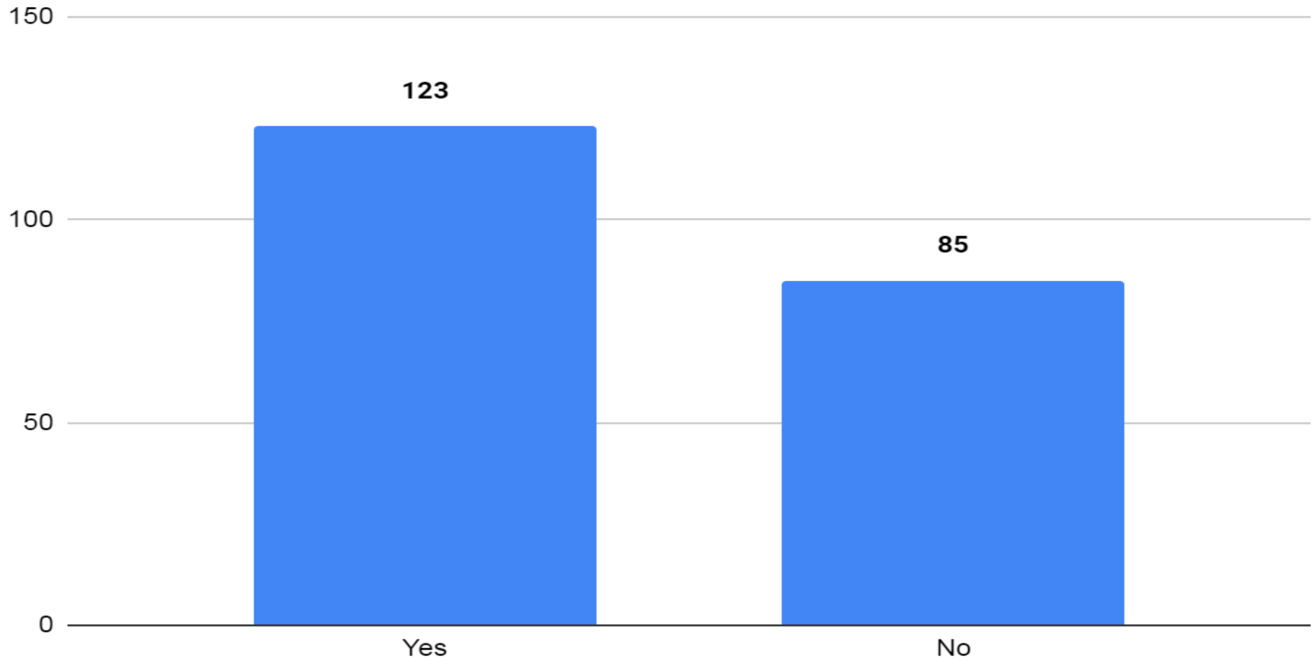

Chart-8

59.1% of the respondents have said that the poor fuel economy before the introduction of hybrids and EVs was a big factor deterring them from choosing SUVs.

Has the increase in hybrid powered SUVs made them more attractive to you?

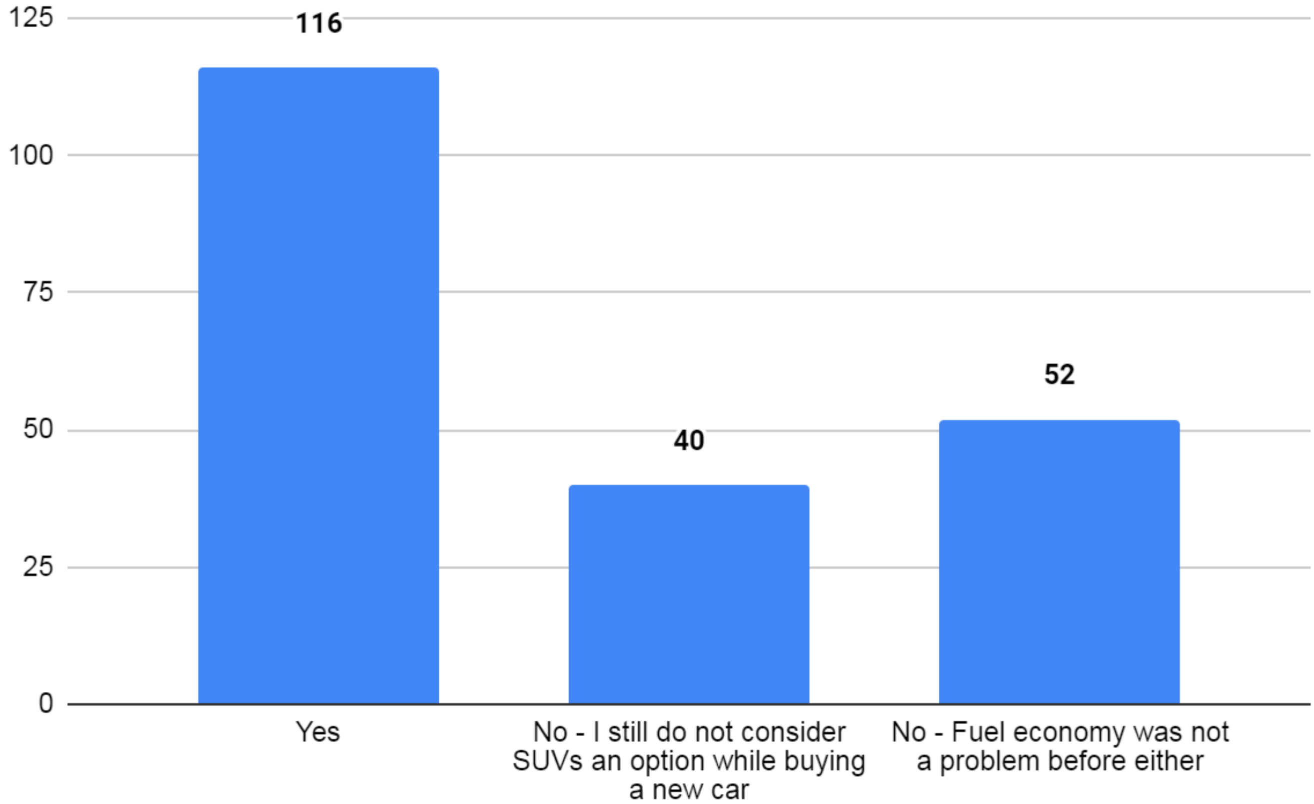

Chart-9

Related to the previous question, when asked if the increase in hybrid powered SUVs made them a more attractive choice, 55.8% of the respondents replied positively- a similar percent of respondents to those who had said that the poor fuel economy was a big problem before hybrids and EVs. The remaining percentage of respondents, 44.2%, which is again similar to the percentage of respondents who had replied negatively to the previous question, is closely split between the remaining two answers, with 25% of respondents saying that fuel economy was not a problem before either.

Has the increase in compact SUVs by brands (like Kia, MG Motors etc.) been a big reason for you in choosing SUVs?

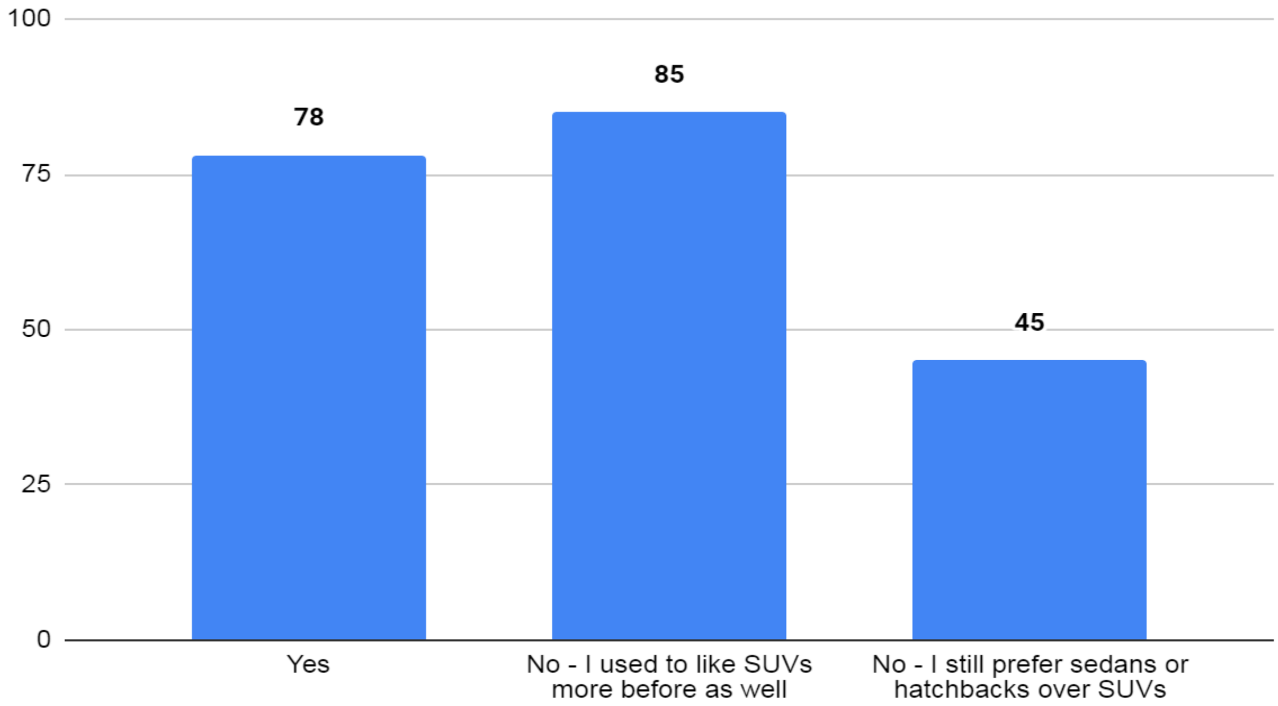

Chart-10

When asked whether the increase in compact SUVs has been a big reason for choosing SUVs, 37.5% of the respondents replied positively and 40.9% replied by saying that they used to prefer SUVs earlier as well, while the remaining 20% said that they preferred sedans or hatchbacks. Here, we can also observe a contradiction with respect to the first question, wherein only 62.5% of respondents were either owners of SUVs or interested in buying SUVs, while here 78.4% of the respondents have said that they preferred SUVs over sedans and hatchbacks.

Do you think an SUV has greater maintenance costs than a sedan?

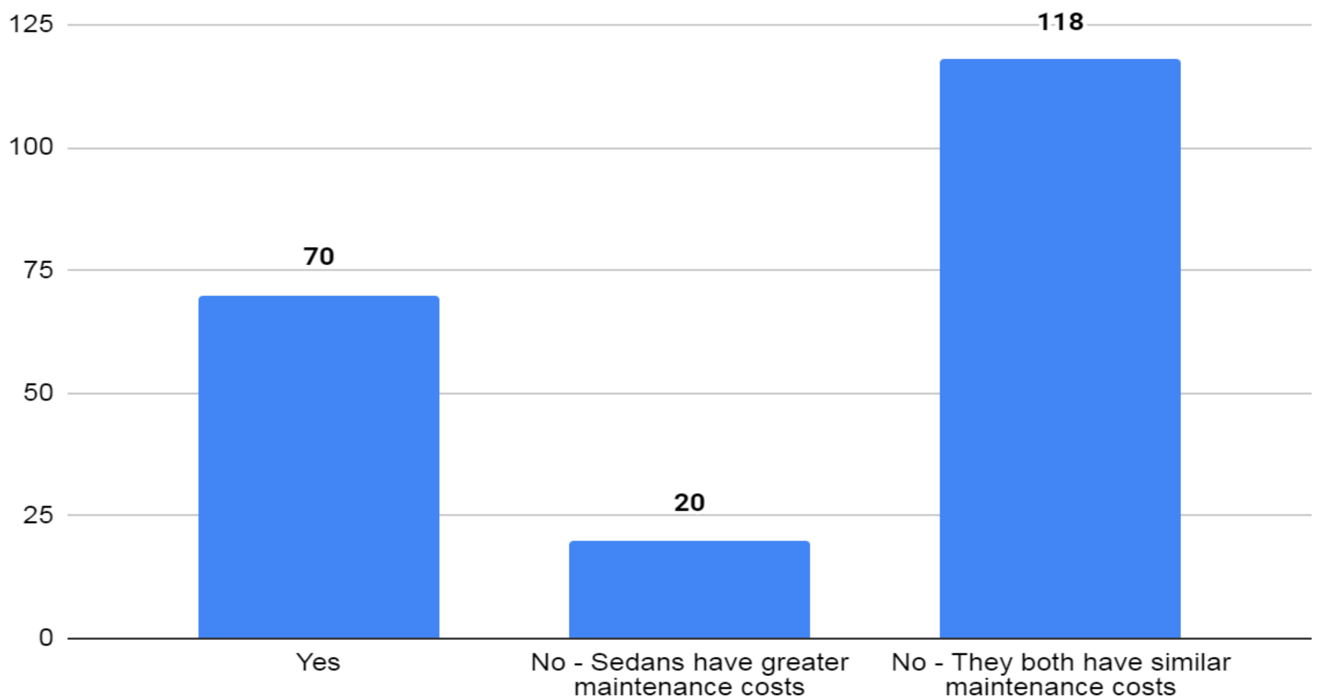

Chart-11

When asked if SUVs have higher maintenance costs than sedans, only 33.7% of the respondents replied positively- a similar proportion to those who had replied that they were neither owners of SUVs nor interested in buying them in the first question.

In your opinion, is an SUV safer than a sedan?

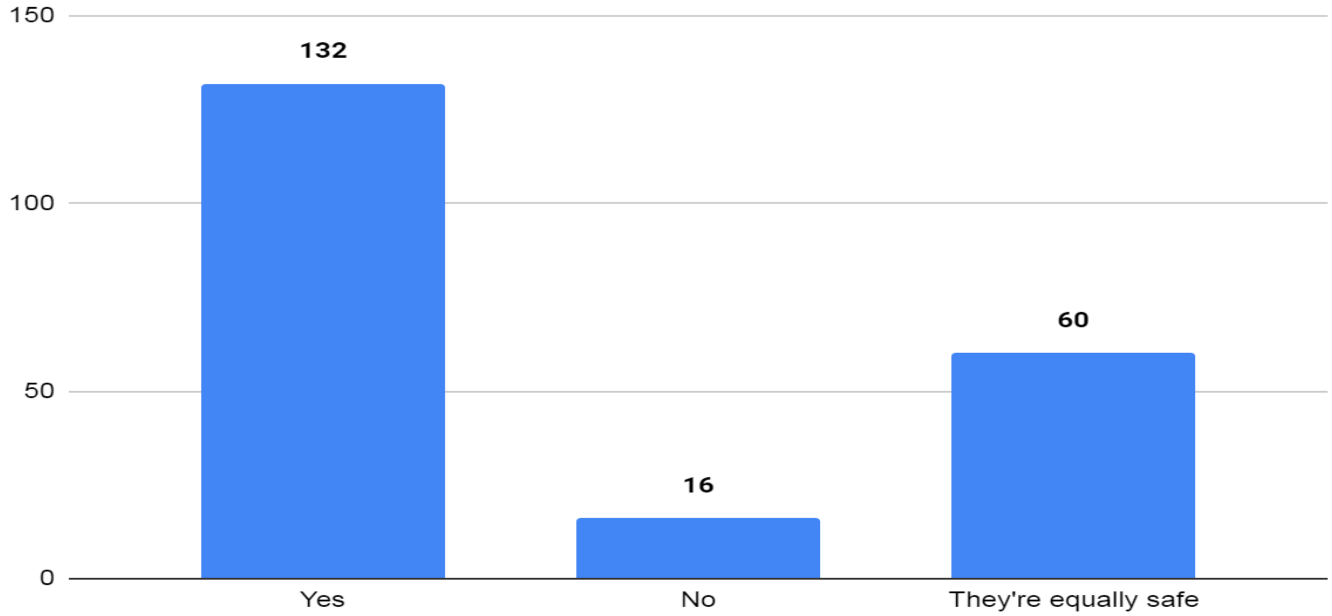

Chart-12

Finally, when asked if respondents considered SUVs to be safer than sedans, 63.5% replied positively, while 28.8% of the remaining respondents said that they considered both to be equally safe. This verifies the previous inference where it was stated that consumers perceive SUVs to be safer than other passenger vehicles due to focusing on their better survival rate in impact-based accidents and ignoring their tendency to roll over.

Conclusion

In conclusion, the shift of Indian consumers' passenger vehicle preferences to SUVs can be attributed to several reasons.

In terms of industry trends, the increase in EVs and hybrid powered vehicles have caused an insurgency in the demand for SUVs as these features are more often found in SUVs themselves, while solving the poor fuel economy problem traditionally associated with them as well. This can be confirmed with almost half the respondents stating EVs and Hybrids to be important features in a car and with more than half of the respondents confirming Hybrids and EVs increase has made SUVs more attractive to them. Also, the introduction of newer players in the market like Kia and MG Motors which are heavily marketing compact SUVs, and the rest of the companies joining in, has also been helpful in swaying the consumers towards SUVs, as can be seen with more than a third of the consumers agreeing with the same.

With respect to the changes in consumers that led to this shift, the main reason can be attributed to the growing perception of SUVs as safer and more comfortable in their minds. This safety bias towards SUVs can be verified through the survey. Also, their greater space and comfort, as well as the greater reliability attributed to them, especially with respect to the greater ground clearance on Indian roads, has become a great factor driving their popularity, as can be seen through the responses.

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