



(REVIEW ARTICLE)



## Impact of dealer profitability on dealer satisfaction: A context of Indian automobile industry

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International Journal of Science and Research Archive, 2024, 12(01), 286–292

Publication history: Received on 25 March 2024; revised on 03 May 2024; accepted on 06 May 2024

Article DOI: <https://doi.org/10.30574/ijrsra.2024.12.1.0772>

### Abstract

The purpose of this study is to explore critical factors that defines the level of satisfaction and bond of relationship between Automobiles companies and their dealerships. Indian Automobile Industry is one of the world's fastest growing Industry and the success of Auto companies is largely depend on their robust and healthy dealer network. In this paper, we attempt to identify critical factors which can influence the relationship of Manufacturer and Dealers. The research is based on a survey carried out in Pune region of Maharashtra, where we focused on identified critical factors of mutual relationship. It was also noted that new age Auto dealerships owners are looking forward for relationships beyond just return on Investment. Using statistical data analysis, we also attempt to identify most critical factors that can influence Dealer-OEM relations. These factors were return on Investment, Future growth potential, Support from OEM team, Involvement in policy decision making and supply of quality product. The results also indicate the roles and responsibility of an OEM in building strong relationship with its dealers to improve the sales.

**Keywords:** Automobile Retail; Dealer Satisfaction; Dealer Profitability; Manufacturer -Dealer Relationship; Channel Management

## 1. Introduction

### 1.1. Overview

When it comes to the Indian automobile sector, dealer satisfaction is heavily influenced by dealership profitability. Many parts of a dealership's operations are affected by profitability. These include infrastructure investment, staff incentives, and the quality of customer service. Dealerships can improve the client experience overall when they are lucrative enough to engage in staff training programs, upgrade showroom amenities, and offer superior after-sales care. Furthermore, profitable dealerships are better able to weather market volatility, which in turn fosters stability and confidence among stakeholders. On the flip side, when profits are low, cost-cutting measures are used, which lowers the bar for service quality and reduces dealer satisfaction. As a result, maintaining profitability is essential for the long-term viability of the Indian car industry as a whole and for the financial stability of individual dealerships.

An important contributor to India's GDP during the last decade has been the country's booming automotive industry. Dealership profitability, though, has been a source of worry recently. Dealerships are seeing difficulties in sustaining profitability due to the increase in competition and changes in consumer behaviour. The dealer satisfaction index, which gauges how content dealers are with manufacturers' overall performance, is directly affected by this.

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Profitability of a dealership is affected by several things, including real estate costs, inventory management costs, labour costs, and marketing charges. Dealerships in India are facing a significant problem in maintaining profitability due to the rising cost of real estate. This is particularly the case in densely populated areas, where land and space are extremely expensive despite the strong demand for automobiles. Consequently, car lots have little choice except to raise prices, which has the potential to reduce sales and cut into dealership profits.

The significance of labour costs in the profitability of dealerships is also critical. Skilled technicians and mechanics are becoming more expensive in India's labor-intensive automotive industry. Dealerships are under pressure to keep labour costs low due to this and rising competition, which in turn affects the level of service that customers receive. As a result, the dealer satisfaction index can take a hit and consumer satisfaction could fall.

### **1.2. Automobile industry**

The automotive industry supports millions of employees across the world and has a major impact on many other industries. The industry has changed throughout the years due to the entrance of Korean, Japanese, and German manufacturers, while American corporations such as General Motors, Ford, and Chrysler initially dominated. Reasons such as changes in customer tastes toward more fuel-efficient automobiles, technological developments, and the ever-changing price of gasoline have all contributed to this change in market dynamics. Related sectors, such as those dealing with steel, iron, glass, and textiles, also feel the effects of the industry's dominance in the automotive sector (Nieuwenhuis and Wells, 2015)[12]. The automotive business is always evolving to fulfill the wants of consumers and comply with regulations, thanks to a myriad of elements that include economics, the environment, and technology.

In the last hundred years, the automotive sector has been one of the world's most important economic engines. The way people commute, live, and travel has been drastically altered by this technological advancement. The automotive business has come a long way since Karl Benz invented the first vehicle in 1885; now, it is a complicated and competitive market (Katz, 1970)[8]. Everything from product development and assembly to marketing and customer service falls under the umbrella of this sector. It is a major economic driver for many nations and employs millions of people around the world.

There have been several difficulties in the automotive business as well. The growing awareness of the negative effects that vehicles have on the environment is one of the main obstacles. Automakers are feeling the heat to create greener automobiles as people become more conscious of the necessity of sustainable practices and climate change (Dauvergne, 2010)[5]. This has resulted in more stringent emission regulations and the increasing popularity of electric and hybrid vehicles.

### **1.3. Indian Automobile Industry**

When it comes to India's gross domestic product (GDP) and job creation, the automobile industry is right up there. The sector has grown into one of the biggest automobile marketplaces in the world, building on a long and storied past that began in the early 1900s. Attracting big international manufacturers and experiencing a boom in demand driven by rising disposable incomes and changing customer preferences, the sector has grown significantly over the years. Improvements to the industry's infrastructure, new technologies, and a strong supply chain ecosystem have all contributed to its rapid expansion (Bhasker, 2013)[1]. The Indian automobile industry has great potential to become a world leader in electric mobility and a sustainable manufacturing hub with the help of the government. This would bring about a lot of positive change in the Indian economy.

A large portion of India's recent economic growth and development can be attributed to the country's booming automotive industry. The demand for cars in India has skyrocketed, thanks to the country's expanding middle class and fast-expanding population (Tripathi and Rao, 2016)[16]. A variety of vehicles, including luxury automobiles, SUVs, and commercial vehicles, are currently produced by the industry, which has expanded its focus from two-wheelers and tiny cars in the past.

The liberalization policies and actions of the Indian government have been a key factor in the expansion of the country's automotive industry. The liberalization of the Indian economy in the 90s attracted FDI, which in turn attracted international companies to set up shop in the country's market (Miglani, 2019[9]). Along with cutting-edge know-how, this stoked rivalry, which in turn spurred innovation in car quality and affordability.

#### 1.4. Indian Automobile Industry's Evolution

Around 5,000 years ago, wheels were first utilized for mobility, most likely on "Mesopotamian chariots" in 3200 BC, marking the beginning of the history of the automobile. India's automotive history began in 4000 BC, when wheels were initially employed for propulsion in the form of chariots. It has come a long way since then, from chariots to bullock carriages to the jet era.

The first motorcar drove on Indian roads in Mumbai in 1898. Early in the 20th century, taxis were introduced to Mumbai. After that, automobiles were imported for many years to meet domestic demand. Approximately 4,000 automobiles were directly imported into India from overseas producers up until the First World War. The merchants quickly capitalized on the fundamental needs of the Indian auto market, which were established by the increasing demand for these autos (Shinde and Dubey, 2011)[14]. The car business began modestly in 1910, when assembly plants were established in Mumbai, Calcutta, and Chennai. After the 1920s, the import/assembly of automobiles increased steadily and reached 30,000 units in 1930.

To produce automobiles in India, Hindustan Motors (HM) was founded in 1942, and Premier Automobile Ltd. (PAL) was founded in 1944. PAL, on the other hand, assembled "Dodge De Soto" and "Plymouth" automobiles at its Kurla facility in Mumbai in 1946 to make the country's first automobile, whereas HM focused on automobile parts and could only produce its first car in 1949 (Vashisht, 2008)[17]. In due course, another manufacturer, Mahindra, and Mahindra, produced more robust utility vehicles, specifically the American Jeep.

Only seven auto dealers were permitted by the Indian government to operate in the country in the 1950s. India's two- and three-wheeler industries were established in the 1960s, and by the 1970s, not much had changed. Since the 1980s, when India's borders were opened to international automakers and partners, the country's automobile sector has experienced a significant revival. When many international companies entered the nation through partnerships and collaborations in the 1990s, the industry in this country reached a breaking point (Gupta and Shekhar, 2010)[7]. The economic reform programs implemented between 1988 and 1991 have resulted in significant regulatory changes for the Indian industrial sector in recent times. India transitioned from a period of control to one of an "open" economy. As a result, there were two stages to the policy changes in the automotive sector: the pre-liberalization (complete control and partial de-control) and the post-liberalization periods.

From 1950 to 1985, India's car industry flourished in a highly controlled and protected economic environment. Imports of equipment, parts, and raw materials were subject to quantitative limitations through tariff structures and licensing programs intended to control the market. In addition, FDI was restricted, and the local market was safeguarded by the requirement that component production be indigenized. First implemented in 1985, the modifications loosened licensing criteria, expanded the categories of vehicles for license issuance, permitted capacity expansion on a selective basis, and somewhat loosened restrictions on foreign partnerships, imports of capital goods, raw materials, and replacement parts. Even though these actions constituted a "domestic liberalization," trade and investment restrictions, limits on the expansion of large corporations, and currency rate management remained the main objectives of the policy environment (Narayanan and Vashisht, 2008)[11].

This industry has seen significant change because of the 1991 introduction of the outward orientation and liberalization of economic policy. The license raj, which had prevented foreign companies from owning equity and made it difficult for Indian businesses to import equipment and know-how, was essentially abolished by these new regulations. Approval of foreign technology agreements and authorization of up to 51 percent foreign equity participation were made possible for the automotive industry in July 1991. Additional reforms were implemented in 1997, including a requirement for newly entering international markets to construct physical production facilities, an increase in the minimum foreign equity to \$50 million, and a minimum requirement for indigenization of 50% in the third year and 70% in the fifth. The government allowed 100% foreign equity automatically under the Auto policy (Ministry of Heavy Industries and Public Enterprises, 2002). When the Automotive Mission Plan 2006-2016 was unveiled in 2007, it envisioned India becoming the world's top location for the design and production of cars and auto parts, with an output of \$ 145 billion by 2016, accounting for more than 10% of the country's GDP and creating an additional 25 million jobs (Burange and Yamini, 2008).[2]

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## 2. Review of literature

**Chandel, et.al., (2023)[3].** examined the significant developments and adjustments that the global auto aftermarket industry is going through. Because of this, automakers are constantly looking to learn more about their customers to develop more effective advertising strategies. This study attempts to analyze the elements that affect customer

satisfaction and loyalty in the automotive aftermarket industry. In addition, researched to develop a model that employs partial least square structural equation modeling (PLS-SEM) to look into the structural relationships between customer satisfaction, loyalty, price fairness, and service quality constructs in the auto aftermarket sector. The mediating role of customer satisfaction has been investigated. In the Sultanate of Oman, multistage sampling was employed to collect primary data for this study from customers of auto repair shops. The outcomes of the model testing demonstrate the high predictive power of the model. Customer happiness has been found to operate as a partial mediating factor between pricing fairness and customer loyalty as well as service quality and customer loyalty.

**Singh et.al., (2023)[15]** studied the measures for measuring service quality that are currently available in the literature on automotive after-sales support. To improve service quality (SQ) and customer happiness, it aims to create and validate a service quality measurement scale for the after-sales sector of the Indian passenger automobile industry. To evaluate SQ in the after-sales area of the Indian passenger car industry, this article creates a pilot SQ assessment scale. In addition to the five SERVQUAL dimensions found in the body of existing research, two more aspects—service recovery and failure—have been identified and added to the scale designed to consider the unique characteristics of the Indian car sector.

**Chawla and Singh, (2022)[4]** examined that the provision of first-rate after-sales services is just as important to the automotive industry's success as selling fantastic cars to consumers. Therefore, the purpose of this article is to investigate how the automotive industry's helpful after-sales services contribute to customer happiness. This research uses a quantitative analytical approach and non-probabilistic snowball sampling to gather data from 336 car manufacturers' customers. The association between the variables has been investigated using Cronbach's internal consistency and exploratory factor analysis. According to the research's findings, five complementary after-sales services have been identified to assist customers at the service center when they take advantage of the vehicles' after-sales services. These complementary after-sales services include the staff support service, customer lounge service, and complaint handling service, all of which show a high degree of internal consistency.

**Dubey, et.al., (2021)[6]** looked into that data envelopment analysis is used in this study to assess the Indian auto industry. To estimate technical efficiencies and their components of selected firms and to suggest input and output targets for technical efficiency improvement, secondary firm-level data was employed. Research instruments are used in the study to examine the reasons behind bottlenecks and improve technical effectiveness. The weights of peers are also analyzed. To examine the profitability and efficiency of businesses, a profitability-efficiency matrix was created using a solution-based approach. The factors driving the inefficiency of the chosen Diesel Multiple Units (DMUs) are also identified in this investigation, along with suggestions for improving resource efficiency and business efficiency in the automotive sector.

**Mishra, et.al., (2021)[10]** examined that Even while servitization is becoming more and more important to automakers' performance, little is known about its reasons. We address the crucial problem of calculating an automobile organization's service quality and provide a methodology based on graph theory to assess the variables influencing service quality in servitization practices and develop a critical service quality index (CSQI). The suggested approach is employed by three Indian automakers. This provides support for the suggested approach and generates important suggestions for raising the Caliber of servitization inside the Indian auto industry. Three items are added to our present understanding by this study. When an automaker uses servitization, it first offers a methodical way to measure services and integrates the findings into an important service quality index. The method is effective in evaluating and categorizing manufacturers. In their first attempt at servitization in India, three Indian automakers have developed important recommendations using the methodology.

**Sharma, et.al., (2020)[13]** studied in accordance with SIAM (Society of Indian Automobile Manufacturers) The Indian socioeconomic context, where income levels have increased and financial institutions are more than willing to extend credit, has allowed the passenger automobile industry to grow at an average annual rate of 16.38% during the last five years. Each foreign automaker has a production facility in India, and some of them even export to markets in Asia, Africa, and Latin America. The number of big global automakers now operating in India has raised the standard of service, but it appears that this is insufficient as 40 car owners were interviewed and expressed dissatisfaction. The necessity to build a comprehensive scale to quantify vehicle service quality arises from the lack of existing ones, except for J. D. Power's Customer Service Index, or CSI. This research develops a scale to assess the quality of vehicle repair services and adds to our knowledge of the relationships between the scale's structures and results.

**Webber, (2020)[18]** investigated the relationship between customer satisfaction and repurchase intention in the used car market in a few South African provinces. a highly competitive, cost-conscious sector with excellent standards of service. A used automobile dealership's quality, pricing, and selection may have an impact on how competitive it is.

Therefore, a study was required to evaluate the client satisfaction of used automobile dealers. Following a profile of the used car industry, a corporation in South Africa with several dealerships was examined for customer satisfaction and repurchase intention. Repurchase intention and customer satisfaction were also investigated. Customer satisfaction from We Buy Cars, the biggest used car company in South Africa, was measured using e-forms and a 5-point Likert scale. A total of 6,883 surveys were sent to customers, of which 511 were filled out and returned (7.4% response rate). Seven factors related to customer satisfaction were identified by investigative factor analysis: consumer behavior, overall experience, marketing channels, intention to purchase, service options, and media platforms. These factors contributed to a 64% positive cumulative variance.

### 3. Research methodology

The study was carried out in Pune region of Maharashtra, where 141 dealers were selected through Convenience Sampling Method. The study has considered only Four – Wheeler and Two-Wheeler Dealers. The Questionnaire was developed on Likert 5 Scale Model and sent to all these dealers.

In addition, secondary data is utilized to interpret the nature of the study as well as its objectives. Statistical tools and methods such SPSS and regression analysis etc. were used to evaluate the survey data. Consequently, an improved justification of the objectives can be obtained by the utilization of both primary and secondary data, taking into consideration the type and scope of the present research paper.

#### 3.1. H1: Dealer Profitability Is Highly Correlated with Dealer Satisfaction Index.

**Table 1** Descriptive Statistics

	Mean	Std. Deviation	N
Dealer Satisfaction	141.2482	15.15923	141
Dealer Profitability	22.1418	2.92912	141

The descriptive statistics of the significant difference between overall Dealer Satisfaction and Dealer’s Profitability. Descriptive statistics represent the mean values of the variables. According to table 1, the mean value of Dealer Satisfaction is 141.2482 and the mean value of the Dealer Profitability is 22.1418.

Below Table 2 Correlations is the Correlations table which shows the correlation between the Dealer Satisfaction and Profitability. According to table 2, there is a significant relationship between Dealer Satisfaction and Profitability, as the significant value is .000 which is smaller than 0.05.

**Table 2** Correlations Profitability

		Dealer Satisfaction	Profitability
Dealer Satisfaction	Pearson Correlation	1	0.850**
	Sig. (2-Tailed)		0.000
	N	141	141
Profitability	Pearson Correlation	0.850**	1
	Sig. (2-Tailed)	0.000	
	N	141	141
**Correlation Is Significant at the 0.01 Level (2-Tailed).			

The statistical analysis and hypothesis testing showed that the dealer’s profitability is highly correlate with its overall satisfaction. The dealers are basically entrepreneurs and being a businessman, their basic expectations is to get better Return on their Investment (ROI).

Dealers who are not reached to their Break Even Point and making losses in dealership business are obviously going to be dissatisfied. Hence, better dealer margin, good sales and service revenue, financial discipline and acumen are few important parameters which can help dealers to be profitable.

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#### 4. Conclusion

In the Indian automobile business, there is a complicated relationship between the dealer satisfaction index and dealership profitability. Insights from relevant literature imply substantial consequences, even though there may be little direct empirical evidence addressing this nexus. The capacity of a dealership to spend on resources that boost dealer satisfaction, like educating employees, improving customer service, and upgrading infrastructure, is heavily dependent on the dealership's profitability. Also, stakeholders are more likely to have faith in dealerships when they see that they can handle market shocks and maintain stability thanks to increased profitability. Customer experiences, employee happiness, and the quality of the connection between dealers and manufacturers are all impacted by profitability, which in turn affects dealer satisfaction in a roundabout way. Nevertheless, additional empirical study in the Indian setting is required to fully comprehend this connection, considering the specific market dynamics and industry complexities of the country.

Overall dealer satisfaction and performance can be improved by maintaining dealership profitability, which is crucial for the success of individual dealerships and the Indian automobile sector. Careful analysis and strategic management are required to navigate the complex relationship between the dealer satisfaction index and dealership profitability in the Indian automobile industry. Although there may be a lack of studies that directly address this relationship, a thorough examination of the relevant literature lays a strong groundwork for comprehending the underlying dynamics.

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#### Compliance with ethical standards

##### *Acknowledgement*

I would like to convey my sincere gratitude to automobile dealers across Pune region for providing good insights to complete my work. I would also like to thank my research guide Dr. N.D. Shinde for his time, valuable guidance and suggestions.

##### *Disclosure of conflict of interest*

Disclosure of conflict of interest - No conflict of interest to be disclosed.

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