

**Various Determinants that Sway the Vehicle Business in Pakistan: A Contextual Analysis
of Reduction in Deals For Honda Atlas, Toyota Indus and Pak Suzuki Motors.**

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Abstract

The car business is viewed as one of the most contributing enterprises towards the development of an economy. China is the world's driving vehicle producer with in excess of 20 million creations every year, trailed by Japan with just about 10 million units. Conversely, Pakistan's auto sector is in a difficult situation with an unsurpassed low of a 39.6% drop in deals this year. At present, there are 10 vehicles for each 1,000 individuals in Pakistan. This is probably the most reduced proportion among rising economies, which itself talks about high capability of development. Our car industry is confronting new and squeezing difficulties. Globalization, individualizations, digitalization and the expanding rivalry are squeezing the substance of the business. What's more, expanding security prerequisites and deliberate ecological responsibilities by the car business have additionally added to the progressions ahead. Being a huge car firm doesn't ensure achievement. Just those organizations that can advance and find better approaches to make esteem can succeed in this market. This industry is exposed to a scope of components that are expanding multifaceted nature and impacting the financial alternatives accessible to vehicle producers. Most of these components are connected with each other and have solid interdependencies. Be that as it may, a portion of these components are advertise incited and, thus, can't be impacted straightforwardly by the vehicle

makers. Pakistan's auto sector is considered among the smallest, yet quickest developing in Asia. At present, the auto sector is ruled by three vital participants in particular, Honda, Toyota and Suzuki and they have made an imposing business model in the car advertise. This car mafia is administering us by setting baseless costs for such unworthy vehicles. The motivation behind this exploration paper is to distinguish, evaluate and address the various factors pertaining to the government's policy, common practices of local suppliers and the inundation of imported used vehicles.

Keywords: Pakistan's Automobile Industry, Japanese Used Cars, Declining Car Sales, Big Three Motor Companies, Pakistan's Auto Policy.

Introduction / Research Problem

Buyers are done tolerating normalized items, however need items that fulfill their individual prerequisites. Targeted bunches in this manner have been scaled down by organizations with the goal that clients will be pulled in by the products being advertised. In any case, as a result of the expanded worldwide rivalry alongside a more grounded center around cost and not on brand faithfulness, shoppers for the most part are not drawn towards organizations for their individualized products. Because of these variables, car producers include new prerequisites inside their field of movement.

Moreover, the reconciliation of equipment and programming into vehicles may have expanded the usefulness of the vehicle however has likewise expanded the multifaceted nature of the machine. This unpredictability results in overstrained vehicle improvement divisions, product disappointments, a cost blast concerning assurance and guarantee expenses, and effect on consumer loyalty.

These patterns are consistent with revolutions in other consumer durables markets that effectively transferred market power from manufacturers to retailers. In response, vehicle manufacturers finally are getting serious about marketing, and about confronting the weaknesses embedded in their traditional franchised-dealer distribution channels. The manufacturers want to expand their participation in the customer life-cycle value chain to improve profitability and grow in markets that have been largely stagnant. This changes the basis of competition from designing and making good products to providing services and managing consumer purchase and ownership experiences for which the products themselves are only partly responsible. Pakistan's Motor Vehicles Sales dropped 56.1 % in Oct 2019, contrasted and a diminishing of 39.6 % in the earlier months of 2020.

Statements of Hypothesis:

Under the light of this announcement, we can securely accept the accompanying theories liable for the simultaneous obstacles being looked by the car business of Pakistan:

Hypothesis 1:

Pakistan's automotive industry is under crisis at large due to the influx of used and reconditioned cars.

It is expected that the reason for decrease in car deals is a result of the prominence of Japanese trade-in vehicles.

Hypothesis 2:

Pakistan's automotive industry is under crisis at large due to local assembling of Japanese variants.

It is expected that the reason for decrease in car deals is a result of the nonstop propagation of old vehicles from Japanese makers locally.

Hypothesis 3:

Pakistan's automotive industry is under crisis at large due to lack of government grants.

It is expected that the reason for decrease in car deals is a result of absence of government awards and no business renovating and move of innovation.

Literature Review

Ali Laghari (2017) explains in his article that car dealers charge additional costs from the new car customers. To investors and regular consumers, this is not news as they are well accustomed to these practices. However, this affects the image and perception of a new walk in customer very negatively. You might have overheard people discussing about such an experience. A great number of fingers are also raised in various newspapers, magazines, articles and debates held on auto forums by the public. We found that consumers of locally assembled automobiles are being actually being exploited in terms of advance payments which is due at least 16 weeks ahead of the delivery of the vehicle. This seems to be an act just to manipulate them into paying some own amount if they want their vehicles delivered in a shorter period. Since long, this has been a very common malpractice which is not only limited to the metropolitan, it has spread its roots deep in the soil across the country. Moreover, these unethical car dealers claim that this amount goes to the companies, which according to the former Chairman of The Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM), Syed Nabeel Hashmi is utterly wrong. Mr. Hashmi, in a press conference held back in 2017 mentioned that the auto dealers charge an additional 0.15 to 0.25 million rupees in terms own money per unit that they sell. This additional sum is additional to the profit auto manufacturers give to the dealership. On SUV's such as the Toyota Fortuner, the own amount can go up to 0.6 million rupees. The other reason why this still lingers is due to long delivery time.

According to a Staff Reporter for Blog Profit Pakistan today, in the early part of 2019, Toyota Indus Motors also ran a campaign to curb this malpractice by investing 12 billion rupees in order to increase their production capacity and reduce the delivery time. The advertisement read, At

Toyota, we are dedicated to providing all our customers with the highest standards of value and quality, which is why we have recently invested Rs 12 billion in increasing our production capacity and reducing delivery time to ensure that you receive your Toyota as early as possible. It also stated, In the meantime, to allow us to continue providing you with our quality standards of, we strongly urge you to always say no to paying premium on Toyota vehicles in the marketplace, only book vehicles through authorized Toyota dealerships, only make payment instruments in the name of 'Indus Motor Company Limited' and always avoid purchasing vehicles from private investors.

Ambreen Shabbir (2019) said that It is pertinent to mention that the Advisor to the Prime Minister on Commerce Abdur Razzak Dawood recently hinted at cancelling the registration of dealers who charge 'own money' from the customers while selling new cars. Dawood said, I discourage the unnecessary charging of 'own money' and I have raised this matter with the stakeholders. We are chalking out a plan with regard to cancelling the registration of dealers who are involved in this business.”

Hassan Naqvi (2020) adds that while coronavirus wreaks havoc on global economy, it hits car sales as well. Pakistan's auto sector has sought for immediate government attention including a subsidized package in order sustain the impact of the imposed lockdown. Nishat Hyundai Motors Private Limited (HNMPL) Chief Financial Officer (CFO), Noreez Abdullah said that these are unprecedented times over generations and to counter them, an equally unprecedented courage, patience and cooperation is required. He added that COVID-19 has proven to be an unexpected hit for the auto industry as well as the new entrants. The timing could not have been worse.

For the Express Tribune (Usman Hanif, 2019) states in an article that until now, no any announcements have been made by the government, to facilitate the local automobile manufacturers in order to accommodate some relief. Moreover, the PTI government-imposed FED on the local automobile sector, which was already struggling from inflation and reduced purchasing capability of customers. During their announcement for fiscal year 2019-2020, various slabs were introduced and cars of engine capacity ranging from 0 to 1,000cc were proposed to be taxed at 2.5%, cars from 1,001cc to 2,000cc at 5%, whereas the cars from 2,001cc and above at 7.5%. This resulted in a price rise across the local automobile industry.

In another publishing of his, Usman mentions that “Executives from other industries like textile and food used to buy cars, however, they have discontinued purchases since all sectors have been hit by Covid-19 and there is virtually no demand” they added. “The automobile industry of many countries is suffering, including India, but their government is giving incentives while our government is not.”

Shahab Omer (2020) further added that Pakistan is not manufacturing cars like India or other countries. While cars may be assembled here, most of their parts have to be imported and with the government’s initial anti-import stance, there was little else one could have expected than the situation we have now. Another reason is what a long process car manufacturing is in Pakistan. As if the Ford revolution and assembly lines had changed nothing, a car passes through so many channels before reaching a dealer in any city of Pakistan that it has had a pretty penny spent on it. With each hand the car passes through, the price continues to rise steadily.

“There are import duties and taxes on raw materials, sure, but there have been so many additional taxes since last year. Then there is the disaster withholding tax in which some are adjustable and some non-adjustable. There is an evaluation on import which increases the cost” he continues. It

is hard to imagine someone so passionate about taxes. But when it has to do with business slowing down, there is an activist in every chairman and executive.

Amir Shafaat Khan (2019) states that despite decreasing cost of imported parts on account of strengthening of the rupee and steep fall in sales during the first five months of this fiscal year, the auto assemblers on Tuesday gave car and bike buyers a fresh shock by jacking up prices.

Primary Sources for Collection of Data & Research Methodology

Our preeminent essential hotspot for information assortment were the sellers, both of whom which manage the fresh out of the plastic new and a wide range of trade-in vehicles accessible in the market. The information gathered from these vendors is viewed as generally basic for examination as they are the organizations straightforwardly in contact with the market.

Presently, there are 40 company operated vendors for the new vehicles from Honda Atlas, Toyota Indus and Pak Suzuki Motors in Karachi. Convenience Sampling strategy was considered for assortment of the information due to limitations of global pandemic of COVID-19 and data was collected from 30 dealers. We also found that there are 783 registered dealers for used cars on Pak wheels official forum. Responses were collected from 75 used car dealers.

S. No:	Primary Source	Population	Sampling Method	Sample Size
1	DEALERS: New automobile dealers	40 company operated dealerships across Karachi	Convenience	30
2	DEALERS: Used automobile dealers	783 registered dealers	Convenience	75

Table 1: Primary Sources for Collection of Data

So as to accumulate information from our essential sources, we have built up a couple of closed ended questionnaires keeping in view their clients, rivals, product offerings and offered costs. The surveys contrast based on nature of the car businesses. The data was analyzed over the various plugins by Microsoft and Google from while the data was initially collected using Google Forms

& spreadsheets. The most particular confinement so as to direct the examination is the continuous lockdown forced by the legislatures, federal and provincial government. It is unfeasible to gather information in these conditions of COVID-19. Another restriction is leading a physical overview by passing out surveys as individuals are isolated in homes and observing social distancing.

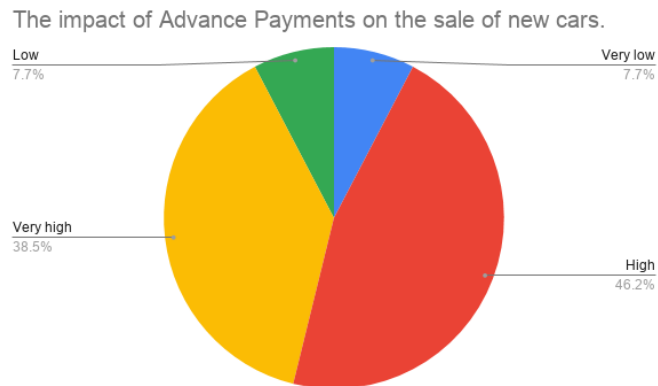
The directors in the vehicle business just as the future policy makers will discover this examination supportive, when they will make methodologies to create future auto arrangements that may in the end bring about a positive effect on our economy.

Both of our surveys have been distributed in three part, all of which are discussed separately as follows:

Premium Earnings & Governments Policies

To analyze our repetitive issues and decrease of deals in our local auto division, let's talk about in insight regarding the administration arrangements, normally managed rehearses, levels of aptitude, abundance of Q.S.E. rules and the featuring highlights offered in our neighborhood gathered vehicles industry in the accompanying chapters.

Purchasing a new car is deemed to be a highly involving activity while also being a very exciting time in an individual's life. Lots of thought, research and time goes in the making the right decision. All these feelings are shattered in a mere split-second when it is explained that the desired vehicle will be unavailable for a significant amount of time. In order to get your car sooner, you have to pay some additional charges. This is a crucial matter as it severely influences the buyer.



It very well may be found in Figure 1, *Figure 1: Impact of Advance Payments on the Pakistani Auto Sector* reactions gathered from the car vendors concerning advance payments. Over 80% of the authorities at the vendors imagine that gathering payments ahead of the delivery of the vehicle legitimately impacts the deals of the units. Unmistakably, this is one of the for the most part profoundly impacting rehearses that is harming to the local auto division. It tends to be found in Figure 2; the portrayal of reactions gathered from the vehicle vendors with respect to own payments. Once more, over 80% of the authorities at the vendors imagine that assortment of own amounts

The impact of Own Payments on the sale of new cars.

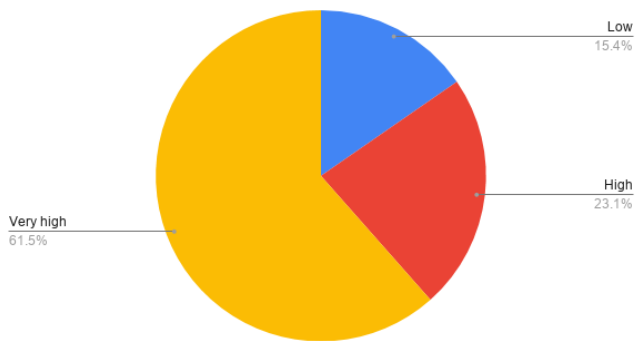


Figure 2: Impact of Own Payments on the Pakistani Auto Sector

straightforwardly impacts the deals of the units. Another exceptionally affecting practice that is stigmatizing the local auto sector bringing loss of deals. A staff reporter at Blog Profit Pakistan Today stated that there was also a time when Toyota committed to giving every one of our clients the best expectations of significant worth and quality, which is the reason we have as of late put Rs 12 billion in expanding our creation limit and diminishing conveyance time to guarantee that you get your Toyota as right on time as could reasonably be expected. It additionally expressed, In the interim, to permit us to keep giving you our quality guidelines of, we unequivocally encourage you to consistently disapprove of paying premium on Toyota vehicles in the commercial center, just book vehicles through approved Toyota businesses and abstain from buying vehicles from private financial specialists. The coronavirus unleashes devastation on worldwide economy, it hits vehicle deals too. Pakistan's auto segment has looked for guaranteed government consideration remembering a sponsored bundle for request continue the effect of the forced lockdown.

The impact of High GST on the sale of new cars.

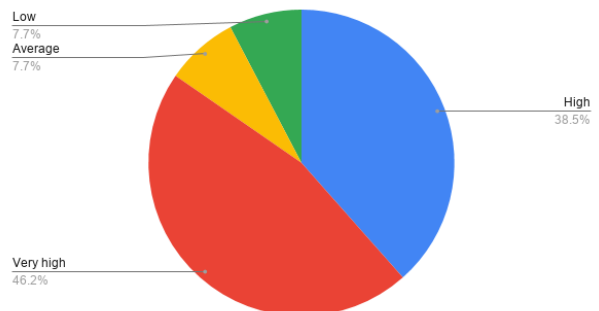


Figure 3: Impact of High GST on the Pakistani Auto Sector

Nishat Hyundai Motors Private Limited (HNMPL) Chief Financial Officer (CFO), Noreez Abdullah included that COVID-19 has demonstrated to be a startling hit for the car business just as the new participants. The planning

couldn't have been more terrible. Figure 3 outlines the effect of The Sales Tax, another factor that legitimately impacts, both the merchants just as the buyers.

Up to this point, no any declarations have been made by the legislature, to encourage the local car producers so as to oblige some help. In addition, the PTI government forced FED on the neighborhood car segment, which was at that point battling from expansion and diminished buying ability of clients. It is likewise discovered that even the individuals identified with other advancing businesses have additionally had a difference in thought and have postponed their

buys because of the worldwide pandemic. The vehicle makers have mentioned for tax levy and government regulated award bundles, so they can oblige the purchaser with estimating relaxations. Figure 4 delineates the need of government changes regarding update of approaches so as to help the neighborhood car industry. Pakistan isn't fabricating vehicles like India or different nations. Another explanation is the thing that a long procedure vehicle producing is in Pakistan. As though the insurgency and sequential construction systems had changed nothing, a vehicle goes through such a large number of channels before arriving at a vendor in any city of Pakistan that it has had a chunk of change spent on it. With each hand the vehicle goes through, the value keeps on rising consistently. Regardless of diminishing

The impact of Lack of Government Grants on the sale of new cars.

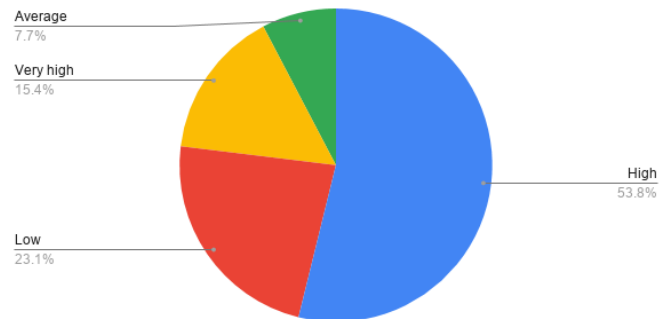


Figure 4: Impact of Lack of Government Grants on the Pakistani Auto Sector

The impact of Price Hike on the sale of new cars.

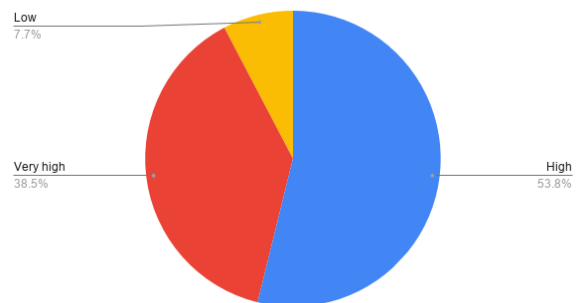


Figure 5: Impact of Raising Prices on the Pakistani Auto Sector

expense of imported parts by virtue of reinforcing of the rupee and steep fall in deals during the initial five months of this financial year, the auto manufactures continued raising prices.

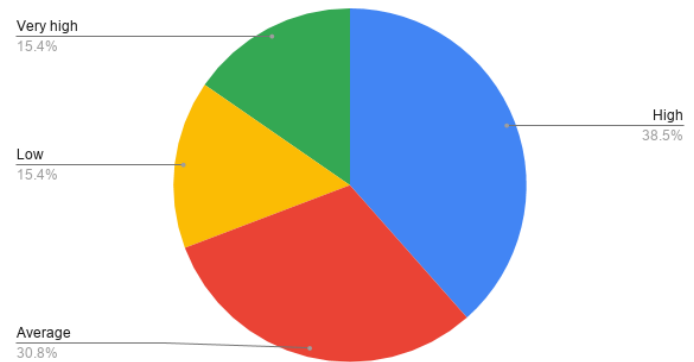
From the responses collected we found that research findings support our developed Hypothesis, H2 i.e., Pakistan's automotive industry is under crisis at large due to local assembling of Japanese variants & H3 i.e., Pakistan's automotive industry is under crisis at large due to lack of government grants. More than a few reactions were gathered across Karachi through a study that was led from Pak Suzuki, Honda and Toyota Motors approved vendor authorities. The vast majority of these respondents were legitimately associated with the spread of deals exercises.

Craftsmanship, Compliance & Other Amenities

Let us now briefly discuss further the quality of products and services offered in our neighborhood gathered vehicles industry and the insight provided by the dealership officials.

As per Figure 6, Functionality is additionally a significantly persuasive factor and straightforwardly impacts the sales. Practically 50% of the respondents guarantee that lower Functionality of our local cars is likewise one of the elements causing prevention towards propagation of sales.

The impact of Functionality on the sale of new cars.



Similarly, it can be seen the Product Quality is *Figure 6: Impact of Functionality on sales*

also very low. Endeavors at progress are noticeable with a little, yet critical number of sellers are ISO affirmed. Principles should be created by the PSQCA, abilities need improvement and cooperation with universal open doors for aptitude/quality advancement should be taken advantage of. While quality guidelines have been created for countless building items, there are no known

The impact of Build Quality on the sale of new cars.

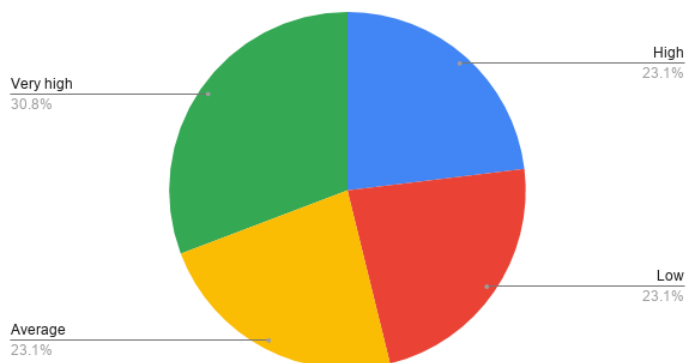


Figure 7: Impact of Build Quality on sales

norms for the car area. These should be created to guarantee an adequate degree of value. By and by this isn't seen at this point in the car segment. It can be seen (in Figure 7), that the build quality is also a significant factor that is affecting the dignity of local auto business.

Safety standard regulations are spread out in the Motor Vehicles' Rules which lamentably are not normalized the nation over. The initial step ought to be to build up the principles and have these endorsed by sub-national governments. No vehicle is analyzed in Pakistan as there is no facility accessible which can test these. Further, there is no prepared inspector accessible with the Offices of the Motor Vehicles Examiner. It is recommended that help ought to be looked for from the Transport and Road Research Laboratories to help set up these offices and work these for a couple of years. Meanwhile the

human asset abilities should be built up and a straightforward framework for assessments created and executed. Having visible decline in sales, the responses (in Figure 8), depict that the business is also affected by our local Quality Safety and Environmental Compliance. They accept that if the bar is brought up in agreement with universal guidelines. Our neighborhood industry is equipped for delivering greater items.

According to these responses from the auto dealers, we can easily conclude that the most significant elements that influence the decline in sales of brand-new cars are Own Payments, Advance Payments, High GST, No Government Grants, Price Hike, Cars having Low Functionality and Compliance with International QSE Standards. The aforementioned factors are highly responsible in influencing the revenues with record highs of impact i.e., more than 80% of the respondents deem these factors collectively critical. This further supports our developed Hypothesis, H2 i.e., Pakistan's automotive industry is under crisis at large due to local assembling of Japanese variants as local assembling is somehow the reason behind all the above stated factors.

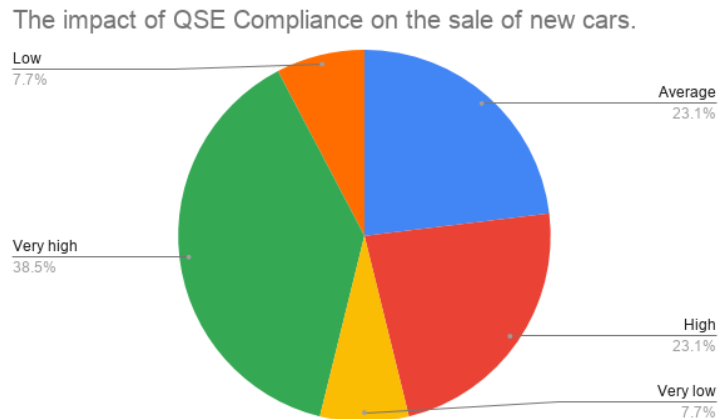


Figure 8: Impact of QSE Compliance on sales

Imported Vehicles & Government Policies

Utilized and reconditioned imported vehicles are increasing massive prevalence among the purchasers at their cost help in opposition to Pakistani Assembled Cars. In actuality, they are consolidated with two notable benefits:

1-Relatively less expensive than the new Pakistani amassed vehicles

2-More Durable then the Pakistani amassed vehicles.

As indicated by Experts Opinion Used Japanese Imported Cars are on High evaluations for Performance levels however there is exceptionally restricted decision and collection for Buyers. Our Govt. should find a way to defeat the obstructions on Used Car Imports in Pakistan. It was found that there are 6 factors that highly influence the purchase decision of the Pakistani consumer when it comes to purchasing vehicles.

1. Appearance or Color
2. Performance
3. Road Safety
4. Comfortability
5. Fuel Efficiency
6. Resale Value

In a conducted with the residents of Karachi, it was found that every 6 out of 10 respondents preferred a Japanese preowned vehicle over a Pakistani manufactured brand-new vehicle. (See Figure 9)

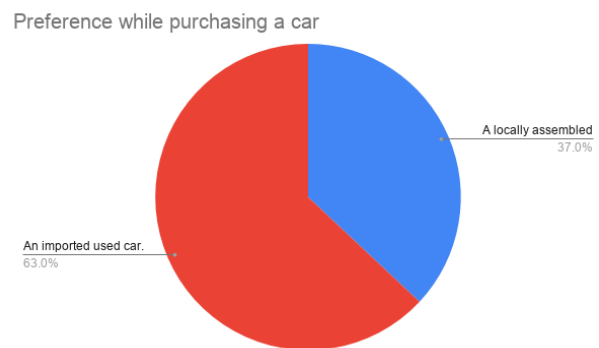


Figure 9: Public preference while purchasing vehicles

The used car dealers in a survey responded that there are 4 elements in government policies for Japanese assembled used cars that impact the local automotive industry namely:

1. Manufacturing Year Restrictions
2. Custom Duties
3. Purchaser Restrictions
4. Remitter Restrictions

As per the used car dealers, these are the only 4 elements that cause hindrance in the propagation of Japanese used car sales. Other than these, they have no obstacle in their path that holds them back from destroying the business of local automobile assemblers. Even today, when the dollar exchange rate is high and the economy is crashing, the Pakistani consumer prefers a used Japanese vehicle over a brand-new Pakistani assembled one. In the light of these responses, we can conclude that the Japanese used car industry has laid a huge blow in the face of local automobile business. This supports our first Hypothesis H1 i.e., Pakistan's automotive industry is under crisis at large due to the influx of used and reconditioned cars.

Conclusion

According to our first survey and research findings, the factors taken into consideration are highly responsible in influencing the revenues with record highs of impact i.e., more than 80% of the respondents deem these factors collectively critical. This further supports our developed Hypothesis H2 i.e., Pakistan's automotive industry is under crisis at large due to local assembling of Japanese variants & H3 i.e., Pakistan's automotive industry is under crisis at large due to lack of government grants. More than a few reactions were gathered across Karachi through a study that was led from Pak Suzuki, Honda and Toyota Motors approved vendor authorities. The vast majority of these respondents were legitimately associated with the spread of deals exercises.

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