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AUTOMOTIVE

# Skills for New Era in Auto Service Sector

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## Skills for New Era in Auto Service Sector

### Executive Summary


The Auto Sector in India is set to continue in its growth trajectory for the next five years and India is an increasingly favourite destination for Global Majors looking at emerging market. This inturn, has fueled a boom in the domestic auto market, with close to 10mn[1] vehicles sold in India in 2009-10. The consequent effect on the Auto Service sector and its skill requirements are being addressed in this report.

The Auto Services sector currently employs an estimated manpower of 787,770[2], with 58% of being in the passenger car segment. There is an increasingly diversified skill requirement in the sector for effective service delivery, spares management and support functions.

The supply from ITIs and Polytechnics in India for the entire Auto sector is in the region of 530,000 graduates per annum. There is an urgent need for courses to be updated to reflect the changes in technology, auto manufacturing, repair processes and equipment used.

KPMG's Predictions on Future Trends for the Auto Service sector that will have a significant impact on the skill requirements for the sector are:

1 **Globalization of the Auto Sector will increase the skill levels of the service sector**

2 **Emergence of Non-OEM Service Centers**

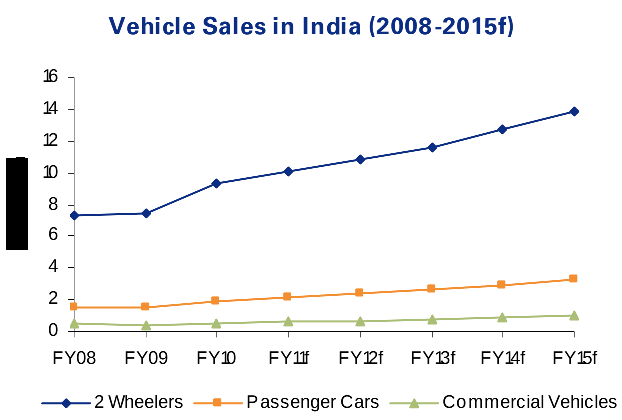
3 **Geographical spread of Indian auto market will fuel the rise of "All Car Service" centers**

4 **Changing Technology Landscape will place a premium on specialized skills**

5 **Focus on Specialized rather than Generalized Skills**

## Introduction

The spurt in the growth of vehicles in the domestic segments, seen in 2009-10 is expected to be maintained over the next few years, until 2015. In the USD 30.6 bn[1] auto sector in India, 2 Wheelers will lead the growth in the sheer number of vehicles, passenger cars and commercial vehicles are expected to grow the fastest at CAGR of 11% and 13% respectively[1], over the next five years.




**Source:** BMI India Autos Report Q4 2010

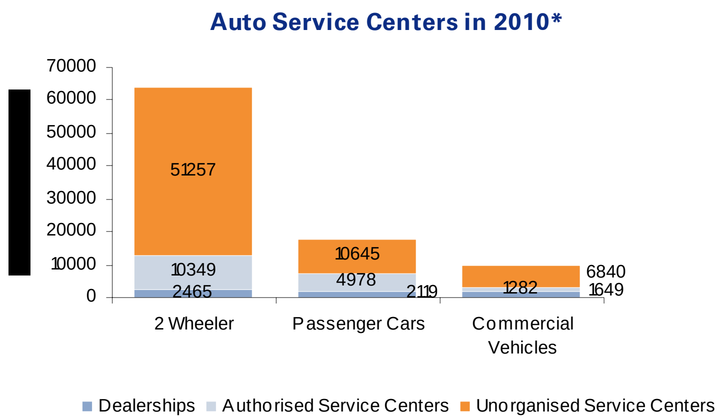
While these numbers reflect the size of the market and the manpower requirement for the auto and auto component sectors and hence auto service sector, deeper analysis reveal dynamics that need to be understood and catered to diligently by players in the Auto Service sector. In this brief update to its Auto Service Skill Gaps Report, KPMG presents the skill requirements and supply for the Auto Service sector. More importantly, KPMG provides insight into the new era of Auto Service by predicting 5 key trends that will drive skill requirement and shape successes in the Auto Service sector in the coming years.

## Methodology

This report has been compiled based on inputs from the KPMG team's primary interactions with leading auto service chains, OEM authorized service centers and individual garage owners, collectively numbering over 40. We combined these inputs with valuable inputs from sector experts in the industry and published reports by other leading agencies to arrive at the manpower estimates and predict future trends.

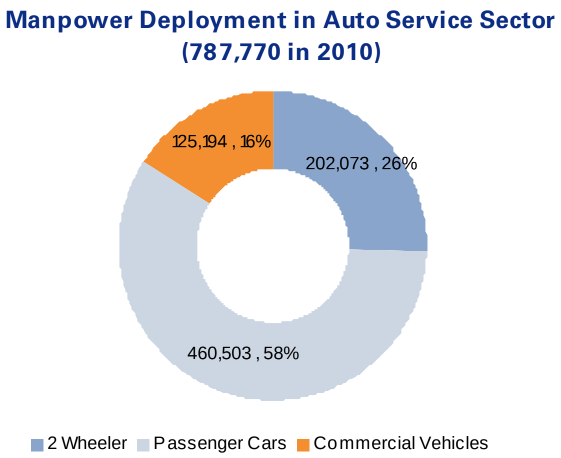
## Auto Service Sector Skill Requirement

The Auto Service sector currently employs an estimated 787,770[2] people across skill levels and service center types




* Estimated based on OEM Reports, Company Websites, KPMG Primary Survey, KPMG Analysis

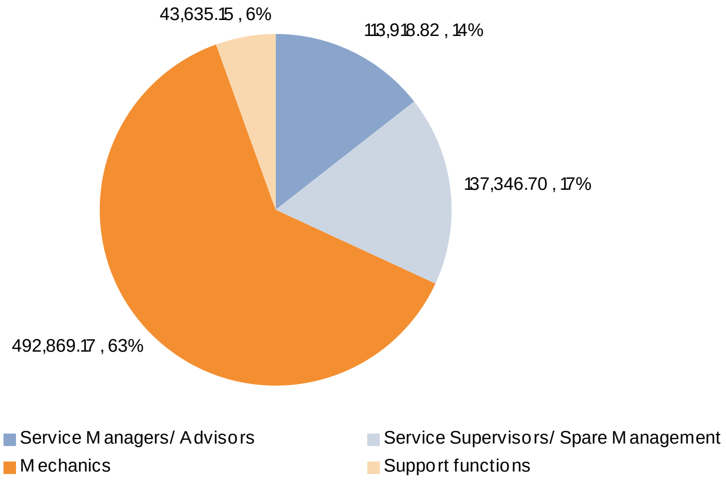
58% of the manpower requirements are in the Passenger Car segment. This is primarily due to high number of dealership based and authorized service centers for all leading OEMs.




* Estimated based on Sector Feedback, KPMG Primary Survey, KPMG Analysis

37%[4] of the manpower requirement in Auto Service centers relate to ensuring customer service, managing work orders, managing spares. These are skills that are currently not clearly being catered to by ITIs and Polytechnics. Amongst mechanics, who constitute 63%[4] of the manpower in the Auto Service sector, there is a need for skills at multiple levels – mechanical, body shop, auto electrical and auto electronics.

**Skill Requirements Across Auto Service Centers in 2010**

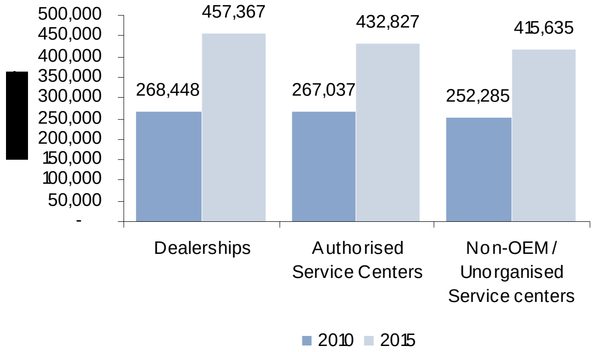



* Estimated based on NSDC Report on Skill Gap in Auto Service Sector, KPMG Primary Survey, KPMG Analysis

### Manpower requirement in 2015

The Manpower requirement for the Auto Service sector in 2015 is set to increase by 65% to 1.3 mn. Dealerships and authorized service centers of OEMs will absorb about 68% of this pool. The key difference is in the emergence of the Non-OEM Service centers from the unorganized service center market. This phenomenon will ensure and demand that the quality and skill of manpower for the remaining 32% of the market also be on par with OEM manpower.

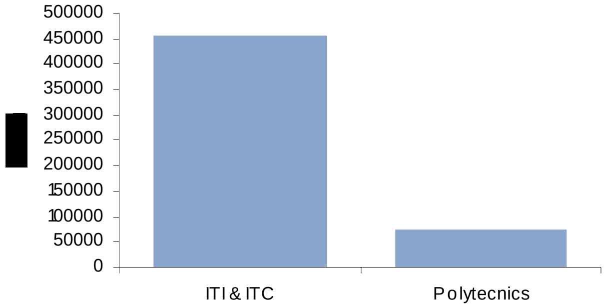
**Estimated Manpower Requirement in Auto Services Sector (2010 and 2015)**




## Manpower Supply for Auto Service Sector

Based on Institutes offering auto/ auto engineering/ auto repair courses, we estimate that about 530,000 people graduate from these institutes every year. This is the number catering to the auto, auto components and auto service sectors. Yet it is lower that the auto service sector manpower requirement of over 780,000. Currently much of the gap is being bridged by OEM training programs and small private institutes offering unorganized training.

**Manpower Supply for Auto Sector in 2010**




* Estimated based on NSDC, Annual Report Ministry of labour 2010, FICCI -ICRA report, KPMG Analysis

## KPMG Predictions for the Auto Service Sector

### 1 Globalization of the Auto Sector will increase the skill levels of the service sector

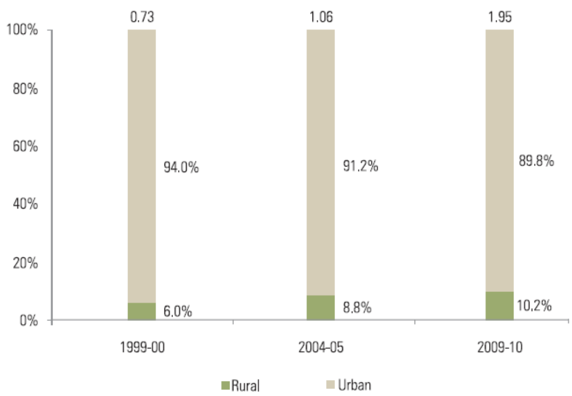
Global OEMs entering India directly or through joint ventures have all created detailed training programs for all their service centers (own and authorized) to ensure consistent service delivery to their customers. As the vehicles range from value for money to super luxury vehicles, the skill levels of manpower in the own and authorized service centers for these OEMs are higher and better developed. Service centers that cater to the post-warranty market, especially for the non-premium cars, need to enhance their skills to be able to compete effectively. The key to their success will be their skill levels of the manpower.

### 2 Emergence of Non-OEM Service Centers

As seen in the previous sections, in each vehicle segment the unorganized sector consisting of individual garages or private chain of garages form a significant portion of the market. Given the overall increase in the quality of service provided by OEM service centers and authorized service centers, few unorganized players would be able to rise to the market and customer demands. This will give rise to a new segment called "Non-OEM" service centers catering to multiple brands of cars. My TVS and Carnation are two large players who have entered this segment. There will also be an increase in specialized service centers like Car/ bike Spas that offer cosmetic enhancements to vehicles, neighbourhood service centers, mobile and emergency service, quick repair and service. Each of these categories of service centers mandate different skills levels that is currently not being catered to by organized skill providers and training institutes.

### 3 Geographical spread of Indian auto market will fuel the rise of "All Car Service" centers

Growth in Rural Passenger Vehicle Demand




Source: Emkay Research, NCAER

Demand for passenger vehicles in tier II/ III towns and rural areas will continue in the coming years, especially with the increase in rural disposable income and introduction of low cost cars like the Nano. These markets may not have volumes to justify exclusive/ authorized service centers by OEMs, but they would have volumes to accommodate “All Car Service” centers that cater to multiple brands on account of its expertise in multi brand car service and multi brand parts management. This segment will form a significant part of the non-OEM segment. Hence demand for mechanics skilled at multi-brand car repairs will increase significantly, and come at a premium.

### 4 Changing Technology Landscape will place a premium on specialized skills

As a consequence of globalization, technology used in vehicles is of international standards and use the latest components that are not just mechanical or electrical in nature, but there is an increase in the number of electronic components, like micro processors and sensory equipment. Equipment such as scanners, used to diagnose problems in these vehicles requires different and specialized skills that would not be ordinarily available from graduates from ITIs and Polytechnics. Increasingly, auto service centers are also focusing on bringing in equipment from developed nations to enhance the effectiveness of existing services like body shop work, wheel alignment, painting, paint mixing, etc. Given that use of these technologies and related equipment will only increase, there is an urgent need for re-look at the content of courses that are being offered at ITIs and polytechnics in India.

### 5 Focus on Specialized rather than Generalized Skills

The changing Auto environment in India requires a divergent set of skills:

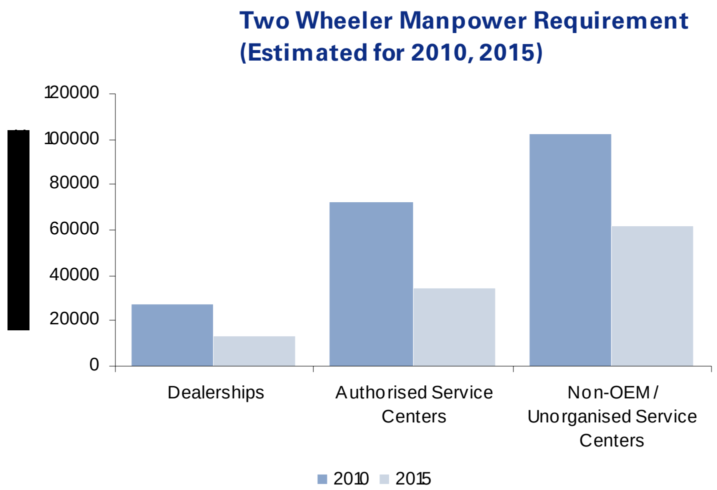
- Skilled labour training, motivation, management and retention
- Customer service delivery and management
- Marketing and customer loyalty
- Spare parts management
- Skills for servicing special vehicle segments like luxury vehicles and green vehicles

These skills are currently being addressed in a sporadic manner by private training institutes or OEM training programs. It is yet to find its way into the ITIs and Polytechnics that supply bulk of the manpower to the auto service sector.

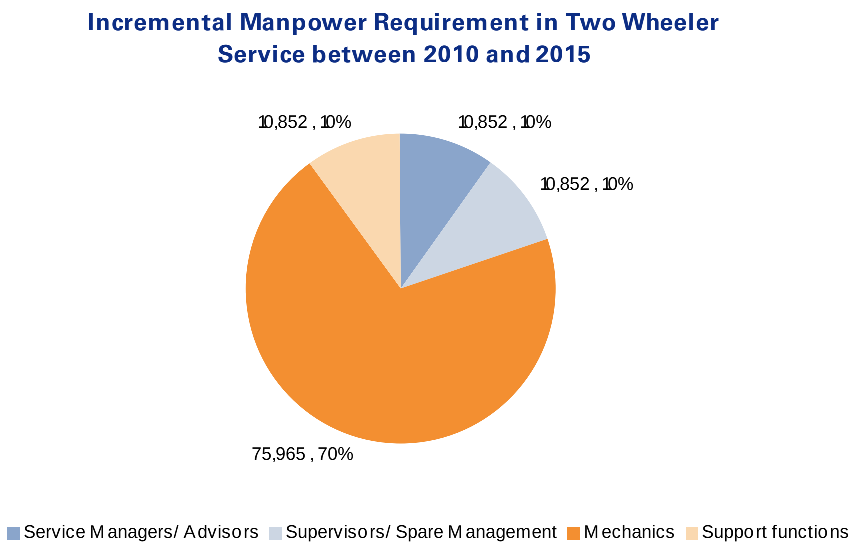
## Segment Level Skill Requirements

### Two Wheelers

While, 70% of the estimated 91,000[2] service centers in India cater to Two Wheelers,  this is also the segment where the presence of unorganized players is much higher at an 80%[3]. The manpower requirement per service center is lower, given the high vehicle turnaround in the service center compared to larger vehicles.



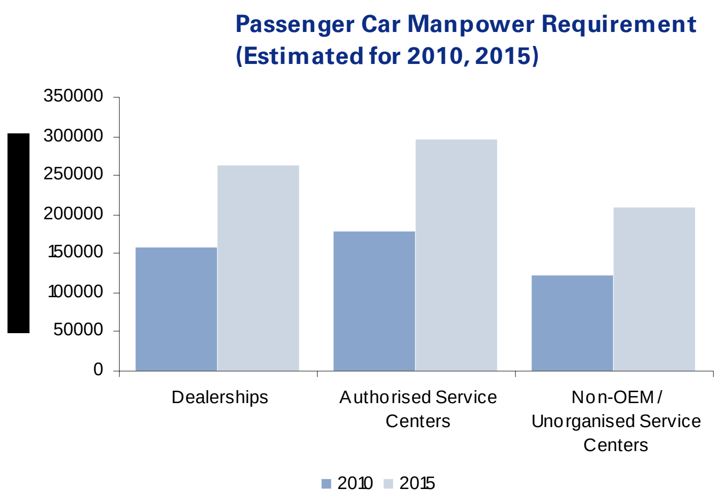

The service sector for two wheelers requires a high number (70%) of mechanics[4], compared to other vehicle segments. Nevertheless, there is a need for specialized service advisors with soft skills for customer handling and good knowledge of two wheeler service, spare management personnel and support functions such as finance and accounts.




* Estimated based on NSDC Report on Skill Gap in Auto Service Sector, KPMG Primary Survey, KPMG Analysis

## Passenger Cars

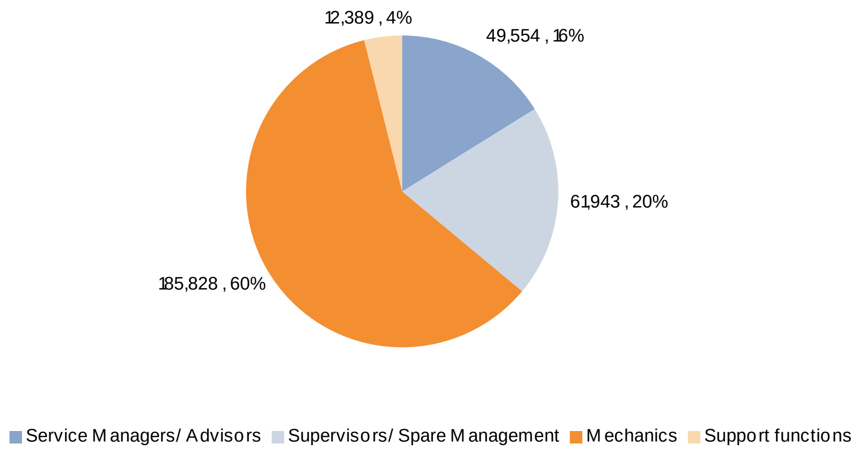
Manpower requirement for Passenger Cars is expected to grow by over 70% by 2015. This is a segment that is also expected to witness the highest level of skill enhancement with the emergence of the non-OEM sector.




* Estimated based on Sector Feedback, KPMG Primary Survey, KPMG Analysis

The Passenger Car segment will see the highest level skill requirement amongst non-mechanic cadre. The need for effective customer service and service/ work order management is the highest in this segment.

**Incremental Manpower Requirement in Passenger Car Service between 2010 and 2015**

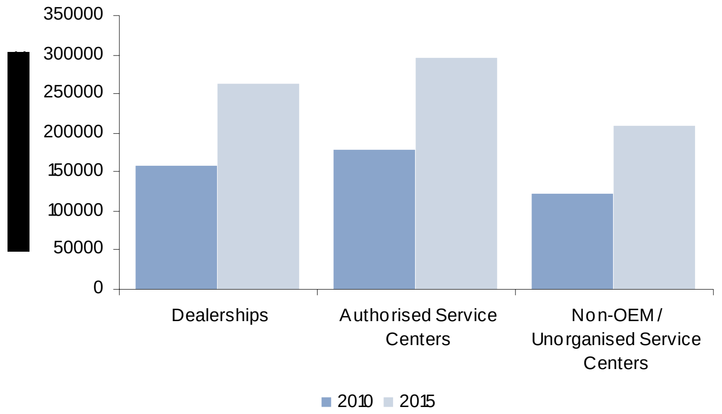



* Estimated based on NSDC Report on Skill Gap in Auto Service Sector, KPMG Primary Survey, KPMG Analysis

## Commercial Vehicles

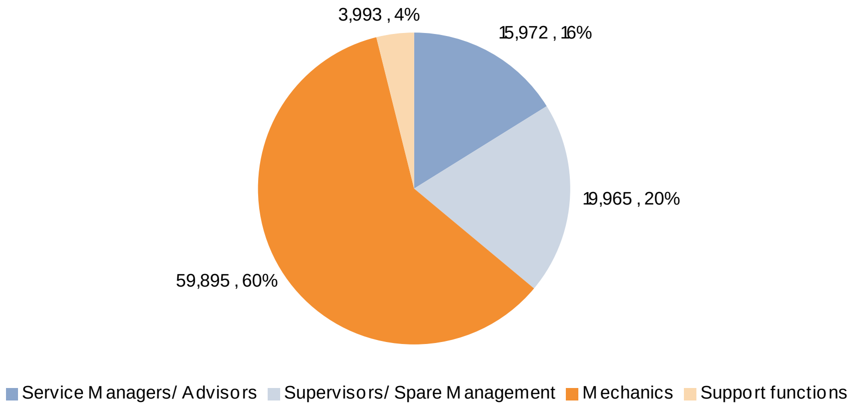
The commercial vehicles segment is expected to see the highest growth rate in the skill requirement over the next five years, with the manpower requirement in 2015 increasing by close to 80% over the existing manpower.

**Commercial Vehicle Manpower Requirement (Estimated for 2010, 2015)**



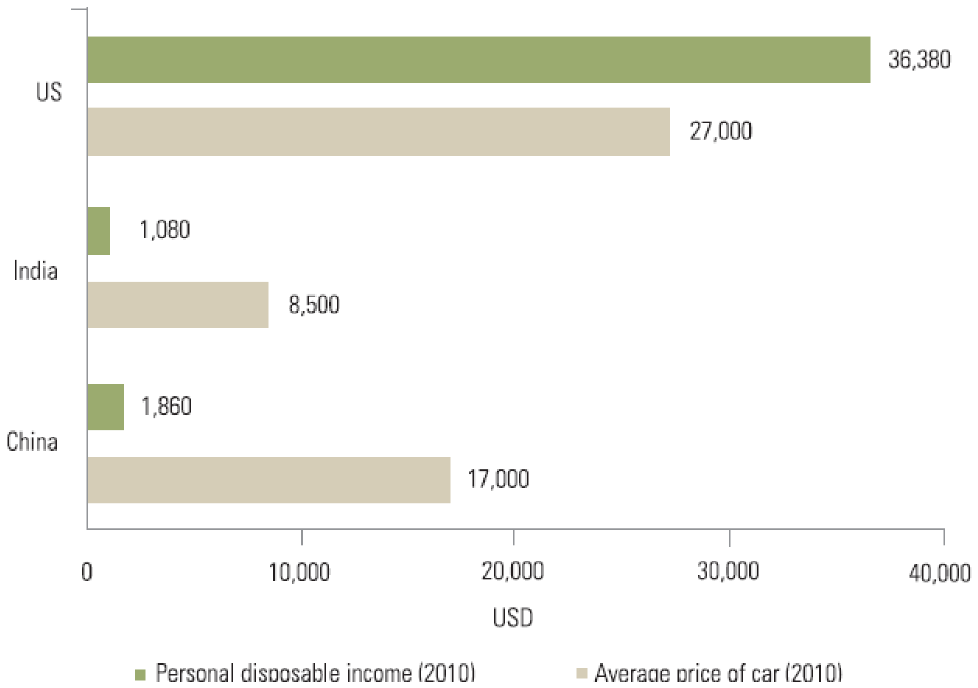

* Estimated based on Sector Feedback, KPMG Primary Survey, KPMG Analysis

**Incremental Manpower Requirement in Commercial Vehicle Service between 2010 and 2015**




* Estimated based on NSDC Report on Skill Gap in Auto Service Sector, KPMG Primary Survey, KPMG Analysis

Figure 6: Vehicle affordability




Source: KPMG Research, EIU

[1] Source: BMI India Autos Report, KPMG Analysis
[2] Source: Estimated based on Sector Feedback, KPMG Primary Survey, KPMG Analysis

[3] Source: Sector Feedback

[4] Source: Estimated based on NSDC Report on Skill Gap in Auto Service Sector, KPMG Primary Survey, KPMG Analysis