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Lower Hatchback – Is revival in sight?

Once a first choice for Indian families, lower hatchbacks are now overshadowed by the SUV boom. Dive into our in-depth analysis to uncover the reasons for this decline and the potential for a comeback.

Lower Hatchback, once a constant in many Indian middle-class households, is losing its coveted position in Indian households. Any millennial would have a story about their first drive in the lower hatchbacks in their households when they were kids. But the same millennial is not considering one in their household anymore. It's not that Indian consumers are not buying cars now. So, what has changed? And can the Lower Hatchback revive back to its glory? Our team has debated and identified the challenges faced by this segment, as well as the potential for its revival. Let's delve into the challenges and potential revival scenarios for this segment.

Why the revival is a difficult and a distant possibility?

The SUV Surge: A Steep Hill for Hatchbacks

The Indian automotive landscape has undergone a dramatic transformation, with

SUVs rapidly eclipsing hatchbacks, particularly in the lower end of the market. This is evident in the year-on-year decline in hatchback market share and the surge in new SUV launches. More than 50% of the new launches in the last two years have been SUVs, further intensifying the competition. Several factors contribute to this trend:

1. **Economic Growth and Evolving Aspirations:**

India's growing economy and rising disposable income have fuelled a desire for vehicles perceived as having higher status and better features, pushing consumers towards SUVs. While consumer confidence and spending are up, the increase in liabilities suggests a reliance on financing, making affordable financing options crucial for any segment. This shift in consumer behaviour is further fuelled by the fact that the price gap between lower



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hatchbacks and entry-level SUVs have narrowed significantly in recent years, making SUVs a more attainable aspiration for budget-conscious buyers.

In India average Household income is growing and along with this consumer confidence in India has shown exponential growth, with high expectations for both the present and future. The Reserve Bank of India's Consumer Confidence Index highlights the following trends:

- a. Income and Spending Perception: There has been a positive shift in consumers' perceptions and expectations regarding income and spending. Increased confidence indicates that consumers are more willing to spend on big-ticket items, including cars.
- b. Savings and Liabilities: Despite higher confidence, FY23 saw a surge in liabilities, suggesting that consumers are relying more on borrowed spending. This trend underscores the importance of affordable financing options in the car market.

2. Government Regulations and the Price Pinch

Stringent emission norms (BS-VI) and safety regulations have increased production costs for all vehicles, impacting the affordability of lower hatchbacks, which rely on competitive pricing. These regulations, while beneficial for the environment and overall safety, have inadvertently put pressure on the lower hatchback segment, which thrives on affordability. Additionally, Safety regulations, such as mandatory crash testing and safety features, also drive up costs, necessitating redesigns that can affect the pricing of small cars, traditionally seen as budget-friendly options for Indian consumers.

3. The Allure of Easy Financing

In recent years, vehicle financing options in India have evolved, making it easier for consumers to purchase higher-segment cars. Competitive interest rates, attractive loan schemes, and flexible repayment options have enabled more consumers to consider upgrading to premium vehicles. Banks and financial institutions offer tailored financing packages, including longer loan tenures and lower down payments, which reduce the immediate financial burden on buyers. Attractive financing options for higher-segment vehicles, with competitive interest rates and flexible repayment plans,



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have made SUVs more accessible, drawing buyers away from the lower hatchback segment. The availability of these enticing financing schemes has tilted the scales in favor of SUVs, making them a more appealing proposition for buyers who might have previously opted for a lower hatchback.

This shift in consumer preference is leading to slower sales growth in the lower segment, as potential buyers are lured by the allure of owning a more premium vehicle with manageable financial commitments. Moreover, as the aspirational middle class expands, their purchasing power and access to credit improve, making higher-segment cars more attractive.

Not just these macro-economic dynamics, but certain category-level factors have also impacted lower hatch sales in the Indian market.

Beyond Macroeconomics: A Shift in Consumer Psyche

The decline of the Lower Hatchback isn't solely due to economic factors; a change in consumer perception and priorities plays a significant role:

1. The Safety Imperative

Indian consumers increasingly prioritize safety, perceiving larger vehicles like SUVs as inherently safer due to their imposing size and robust build. This perception is reinforced by the availability of advanced safety features in higher-segment vehicles. While lower hatchbacks are catching up in terms of safety features, the perception gap persists, making SUVs the preferred choice for safety-conscious buyers.

2. Space: The New Luxury

Evolving family structures and a desire for comfortable long journeys have increased the demand for spacious vehicles. Lower Hatchbacks, with their limited space, struggle to meet these needs, making SUVs more appealing for families.

3. The Price-Value Equation and Shifting Priorities:

The price gap between LHBs and entry-level SUVs has narrowed significantly in recent years. This has made SUVs a more attainable aspiration for budget-conscious buyers, who are willing to stretch their budgets for the perceived value and status associated with larger vehicles.

4. Feature Parity: A Losing Battle?

While lower hatchbacks have made strides in features and technology, they struggle to match the perceived value proposition of similarly priced SUVs. This perception of SUVs offering more for the money, even if the feature list is comparable, can be attributed to the higher initial cost of SUVs, which creates an impression of greater value.

5. The Used Car Market and the Affordability Factor

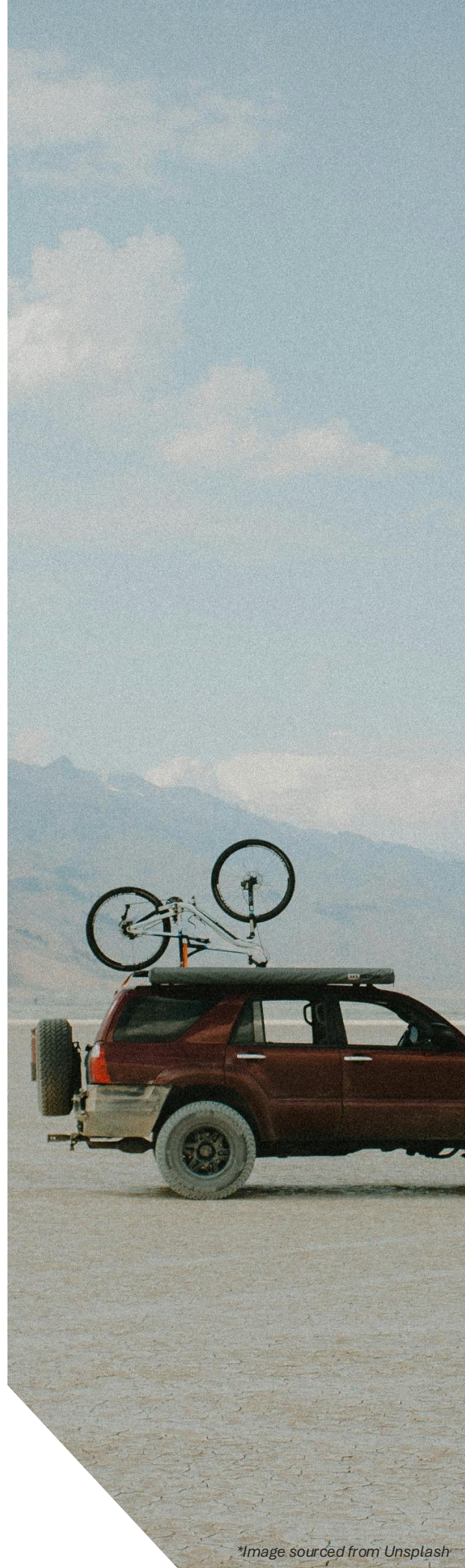
The rise of the organized used car market has added another layer of complexity to this evolving landscape. The availability of well-maintained, feature-rich used cars at attractive prices has opened new avenues for car buyers. The thriving used car market in India has made it possible for buyers to own larger vehicles, like SUVs, at price points comparable to new LHBs. This has further intensified the competition, as buyers now have the option to choose a pre-owned SUV over a brand-new LHB at a comparable price.

6. The Two-Wheeler Conundrum: A Stopgap or a Lifestyle Choice?

India has a large and growing population of two-wheeler owners, many of whom aspire to own a car. However, a sizeable portion of this segment is delaying their car purchase due to various factors. Financial constraints, the high cost of car ownership, and a preference for larger vehicles are among the key reasons for this deferral. Many two-wheeler owners are content with their current mode of transport, utilizing shared mobility services like Ola and Uber for occasional car needs.

Green Shoots of Hope: Can the Lower Hatchback Bounce Back?

The decline of the Lower Hatchback segment is a result of multiple converging factors, including changing consumer



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preferences, economic conditions, and market dynamics. However, the story does not end there. While the demand for LHBs is currently facing headwinds, the segment is far from obsolete. The future of the LHB segment hinges on the

ability of OEMs to adapt to these changing dynamics and some trends are beginning to suggest a potential revival of this segment. Let's look at these factors as well!

The Counter View: What makes the revival possible and why LHB will be relevant in India

1. Congested Cities are making Hatchbacks increasingly relevant:

Given the fact that the growth of urban infrastructure is struggling to keep pace with the worsening traffic situation and space constraints; there is a clear incentive for driving a smaller car which is likely to keep them relevant and popular shortly. For that matter it is likely to provide impetus to those who already own bigger cars to opt for a smaller car as a daily driver having experienced the struggles of commuting in a larger car be it maneuvering in traffic or finding a space to park safely.

2. Increasing Car Prices

On average, car prices in India have gone up by approximately 30-50% over the last 10 years as per SIAM. This price increase combined with the extreme cost-cutting measures means that cars today offer a far worse cost-to-value ratio. Our engagements with customers have led us to believe that buyers today believe that they are getting far less (quality, reliability, and durability) for the price they are made to pay. This sentiment is likely to translate into buyers looking towards more value options going forward especially when looking for a personal car; this is where hatchbacks have a clear opportunity to regain their relevance.

3. Evolving Car culture

In the recent past, we have noticed an increasingly evolving car culture; this goes beyond just cosmetic upgrades where owners are spending large sums of money in upgrading the performance of their vehicles. These upgrades include engine tunes and aftermarket upgrades including turbos, upgraded brakes, air intakes, and full system exhausts most of which are imported and installed at specialized workshops. In most cases, such enthusiasts treat their cars as projects and spend substantial amounts on upgraded components. So far, most such projects are executed with used cars (also referred to as donor cars) purchased for a fraction of their value; buyers then proceed with installing high-end components in a staggered manner. These are done across stages depending upon the type and level of performance enhancement.

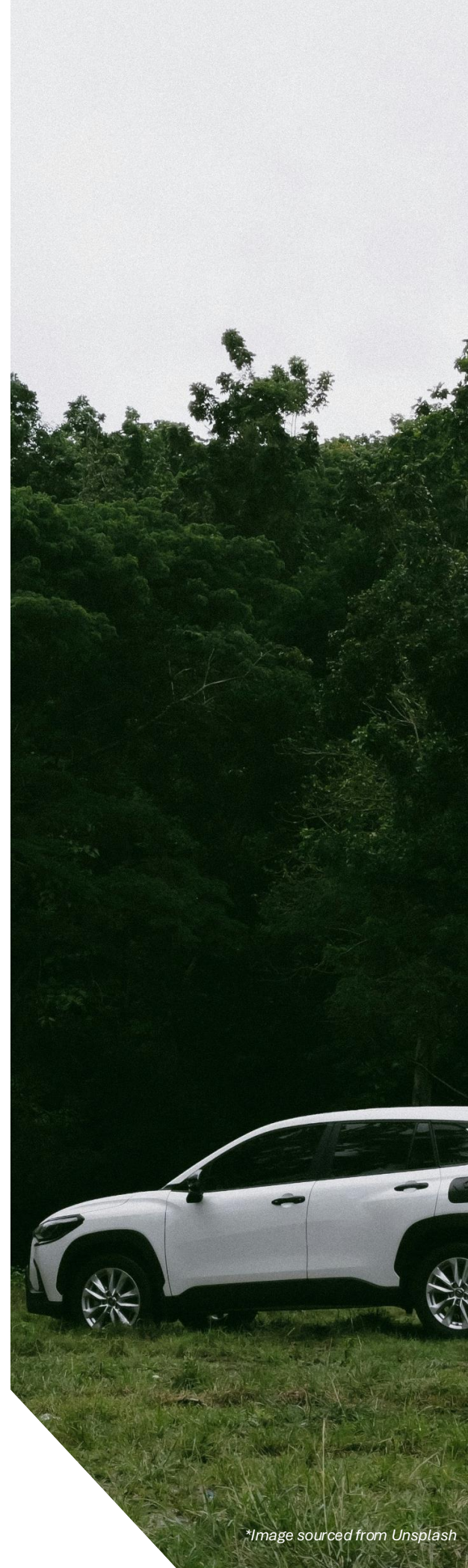
OEMs seem to have made a note of this trend and have responded with the introduction of performance variants of regular cars (Hyundai N-Line, Kia X-Line, TATA Racer, and VW GT previously) which ship with upgrades such as an all-disc braking setup, stiffer suspension and a raspier exhaust note which are further complimented by sportier and/or unique colorways and decals to set them apart from their docile cousins.

4. Individualism:

Second-generation buyers especially youngsters from DINK households who are looking for a personal mode of transport are well-funded enough to have complete autonomy over their car purchase decisions. Having experienced the challenges of driving a large car (with the primary car purchased by their parents), such buyers are likely to seriously begin considering smaller cars; these allow for the convenience and agility that is a non-negotiable while also allowing for a more dynamic and engaging experience with ever more powerful engines being packed inside a small frame. Such a combination is only possible with relatively affordable B-segment hatchbacks.

5. Premiumization:

With an ever-increasing focus on features and attractive/sporty aesthetic; hatchbacks that offer features that are at par with expensive C and Mid SUVs are likely to find takers. Hatchbacks will likely be able to carve out a niche for themselves as competitive



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alternatives to SUVs as they get increasingly comparable and feature-packed as their more expensive counterparts but with the added convenience derived from a smaller

form factor and approachability. There appears to be a clear opportunity for C-SUVs and hatchbacks to compete the former as a do-it-all family car while the latter being a personal car for those who are looking for a personal car; both being aspirational in their separate ways.

The closest example of such a situation is Europe where sedans, C-SUVs, and large hatchbacks (incl. performance hatchbacks otherwise simply known as 'Hot-hatch') co-exist and thrive at a similar price point.

6. New Emerging Target Audience

India being the biggest emerging market globally has its reasons. The emerging needs coupled with the new set of buyers for whom these needs are emerging is a story that is driving innovation and growth in India. Concerning the passenger car market, the need is coming from such emerging new target groups in need of a commute of their own. To give a few examples, the number of women car buyers/drivers is an ever-increasing number in India – The need for a second car in the household for wife/sister/daughter is seeing an increase, though not steep, but expected to gain momentum in the years to come. With a bigger car already present in the household which is an "all-rounder" car – that serves all the purposes of function + emotional + social needs, the humble hatchback as a secondary car is placed to nail the functional (and some emotional needs) quite eloquently. To give a closer analogy, the lower HB is the 'scooter' in the household, which is used to travel smaller distances, get groceries, drop kids to school, etc.

7. New technology paving the way to innovations in the existing market:

The way Indian automobile space has evolved in the last 5 years has been a journey. The rise of EV and Hybrids and the customer preference towards these offerings is a story being told and retold. Just the way Indian customers took up the 'SUV' trend and India saw the emergence of new segments – Compact SUVs and Micro SUVs, the EV and Hybrid surge is being lapped up by the ones who can afford to spend an extra buck to access the technology

With the market, technology evolving, and OEMs innovating, EVs and Hybrids are being bought by the smaller car segment in India – Tata Punch EV to be closest example of the Micro SUV segment, and the MG Comet is the small car example. The numbers suggest

These vehicles are doing great in the metros and being picked up as secondary cars, if not the primary mode of commute

If the affordability of technology allows, to see Evs and Hybrids coming in the 'affordable' range of HatchBacks, it will be interesting to see the impact it will have on the Lower HatchBack Segment and the Hatchback segment at an overall level where the model count by OEMs have dropped to 14 (2023-24) as compared to 26 (2013-14) a decade back

Closing Thoughts

The revival of the lower hatchback segment in India faces significant challenges, primarily due to the SUV surge, evolving consumer preferences, and economic factors. SUVs have become the preferred choice for many, thanks to their perceived status, safety, and space advantages.

However, there remains an opportunity for hatchbacks to make a strong comeback.

Key factors such as the need for affordable mobility, the compactness suitable for urban environments, and changing car culture trends provide signs of promise for a segment otherwise considered to be on a slow decline.

Additionally, increasing car prices and the growing focus on individualism and premium features could make hatchbacks attractive again, especially to younger buyers.

Ultimately, the future of lower hatchbacks will depend on the ability of manufacturers to innovate and adapt to these evolving dynamics, ensuring they meet the needs and aspirations of modern consumers.

To be optimistic, in India, we have only 32 vehicles per 1,000 people compared to some evolved countries like Japan where the number is 600, there is a huge margin for growth and the segment can serve as an entry point to the car aspirants in India

It will be interesting to see the steps taken by OEMs to focus and induce a new surge of life to the segment that started the passenger car revolution in India

Written by the Ipsos India Auto Expert Aanchal Soni, Dipesh Jain, Piyush Mungle and Aniket Katdare

Please get in touch: Balaji.Pandiaraj@ipsos.com