

FUTURE OF ENTRY SEGMENT ACROSS CATEGORIES



*Image sourced from Freepik.com

At the crossroads of evolving aspirations, technological innovation, and market shifts, the auto industry's linchpin faces redefinition.

India's automobile market, which boasts a rich history of innovation and is one of the most vibrant and diverse in the world, is at a crossroads. The foundation of the industry has been the Entry-level vehicles—spanning across passenger cars like hatchbacks, commercial vehicles consisting of light commercial vehicles (LCVs), and two-wheelers with engines under 150cc—have long been the backbone of the industry. However, this segment is witnessing a consistent decline in demand. This shift raises critical questions about the future of these vehicles and the strategies needed to keep them relevant in a rapidly evolving landscape.

In 2018, hatchbacks constituted 46% of the passenger car market, but by 2023, this number had dropped to just 30%. In contrast, SUVs now dominate with a 48.7% market share as of the first half of FY2024, up from 41.5% in FY2023. Similarly, motorcycles with engine capacities under 150cc, which once accounted for over 60% of two-wheeler sales, have seen their share shrink to approximately 48% due to rising demand for premium models and scooters.

A significant driver of this decline is changing consumer preferences. Once the default choice for first-time buyers, hatchbacks have lost ground to SUVs. These larger, feature-packed vehicles offer better road presence, advanced technology, and enhanced comfort, aligning with the aspirations of a growing middle class. The average price of a compact SUV in 2024 was INR 12 lakh compared to INR 7 lakh for a hatchback, yet the former outsold the latter by almost 2:1.



There are several factors for the decline for entry-level hatchbacks

- **Diminished Aspirational Value:** Hatchbacks are losing their appeal as SUVs increasingly dominate consumer preferences with their enhanced features and road presence.
- **Improved SUV Accessibility:** Despite their higher price, SUVs have become more attainable due to flexible financing options such as longer loan tenures and low-down payments.
- **Shifting Priorities:** Younger generations, particularly professionals, no longer view car ownership as a significant life milestone, opting instead for ride-sharing and shared mobility services.
- **Urban Infrastructure Limitations:** The rapid growth in car ownership outpaces urban infrastructure development, with inadequate roads and limited parking spaces exacerbating congestion.
- **Economic Disparities:** The widening gap between urban and rural incomes affects vehicle affordability in rural areas, further impacting demand for entry-level cars.

In the two-wheeler segment, premium motorcycles priced above INR 1.5 lakh now account for 25% of total two-wheeler sales, up from 15% in 2020. Urban consumers, particularly millennials and Gen Z, increasingly prefer motorcycles that reflect their lifestyle choices.

The decline of motorcycles with engine capacities under 150cc in India can be attributed to several factors:

- **Changing consumer preferences coupled with Aspirational buying:** As the Indian economy has grown and incomes have risen, many consumers are now opting for more powerful and feature-rich motorcycles. They're looking for better performance, higher speeds, and more advanced technology. Owning a larger capacity motorcycle is often seen as a status symbol, especially among younger riders.
- **Increased affordability of higher capacity bikes:** With more financing options and competitive pricing, higher capacity motorcycles have become more accessible to a wider range of consumers.

- **Regulatory changes:** The implementation of stricter emission norms (BS6) has increased the cost of smaller capacity motorcycles, narrowing the price gap between them and higher capacity models.
- **Rural to urban migration:** As more people move to urban areas, the demand for more powerful motorcycles suitable for city commuting has increased.
- **Improved fuel efficiency in larger bikes:** Advancements in technology have made higher capacity motorcycles more fuel-efficient, reducing one of the main advantages of smaller bikes.
- **Growth of the used motorcycle market:** The availability of used higher capacity motorcycles at affordable prices has also contributed to the shift away from new, smaller capacity bikes.
- **Marketing focus:** Many manufacturers have been promoting their higher capacity models more aggressively, influencing consumer choices.

In the case of commercial vehicles, share of entry level 4W LCVs (mini trucks) has declined from ~65% a decade back to ~35%. With logistics models getting matured leading to load aggregation and penalties on overloading, the shift is towards higher tonnage 4W LCVs (pickups) which offer a lower cost/ton/km than mini trucks as it brings in logistics cost efficiencies.

Amongst **LCV**, the segment has shifted from mini trucks (Ace like) towards pickups (Dost, Bolero like) products due to significant increase in prices driven by emission regulations and practically no change in customer value/ benefit of mini trucks while pickups have evolved in value.

Within CV, **3-wheeler cargo segment** was declining until electrification revitalized it. This

revival is primarily driven by organized logistics companies purchasing electric fleets for last-mile e-commerce deliveries, motivated by internal mandates and carbon reduction commitments. However, overall volumes remain stagnant as the larger unorganized segment still predominantly uses 4-wheeler mini trucks and pickups

Rising costs have compounded the challenges faced by the entry-level segment. The transition to Bharat Stage VI (BS6) emission norms has driven up manufacturing expenses across the board. The cost of compliance added approximately INR 15,000–20,000 to the price of entry-level cars and INR 6,000–INR 8,000 to two-wheeler. Higher input costs, coupled with inflation, have widened the price gap between budget-friendly options and higher-end models. As a result, many buyers are opting to slightly stretch their budgets for vehicles that offer more features, better performance, and greater long-term value.

Urban mobility trends have also played a role in reshaping demand. The proliferation of ride-hailing services and shared mobility platforms has reduced the need for personal vehicle ownership, particularly for budget-conscious urban dwellers. In urban areas, where shared solutions are perceived as more cost-effective and practical, this has further diminished the allure of entry-level options. A recent survey indicated that 35% of urban residents in Tier I cities prefer using ride-hailing services over purchasing a car, a number that was less than 10% a decade ago.



*Image sourced from Freepik.com

There is still hope for the entry-level segment despite these obstacles. For OEMs and policymakers, this decline represents an opportunity to reimagine and reinvent the category. The secret to bringing entry-level cars back to life may lie in Electrification. With India's push toward green mobility, affordable electric hatchbacks, light commercial vehicles, and electric two-wheelers could become game-changers. Achieving this, however, will require significant investments in battery technology, infrastructure development, and policy support to ensure affordability and accessibility.

In addition to electrification, innovative financing solutions can help revive interest in entry-level vehicles. Flexible payment models, including low down payments, extended loan tenures, and subscription-based ownership, can make these vehicles more attainable for first-time buyers. Financial inclusivity, particularly in rural and semi-urban markets, could serve as a catalyst for growth in this segment.

Additionally, in PV, the OEM's could look at specific strategies for the below segments.

For Rural Segments:

- Emphasize Practicality and Frugality: Marketing campaigns should highlight the cost-effectiveness and functional benefits of entry-level cars, such as fuel efficiency and low maintenance costs.
- Community-Centric Messaging: Tailor messages that resonate with the community-oriented lifestyles of rural consumers, emphasizing how entry-level cars can support family needs and community involvement.
- Partnerships with Local Influencers: Engage local influencers who are trusted within these communities to endorse the brand and model.

For Urban Segments

- **Highlight Convenience and Manoeuvrability:** Focus on the ease of navigating city traffic and the benefits for running errands, which are key considerations for urban families.
- **Position as a Secondary Car:** Market the entry-level car as an ideal secondary vehicle that complements an existing larger car, suitable for city commutes and short trips.
- **Leverage Digital Channels:** Use targeted digital advertising to reach urban consumers who are more likely to engage with content online.

OEMs should also explore niche markets to sustain demand. For instance, rugged hatchbacks tailored for semi-urban areas, compact and durable LCVs designed for small businesses, and stylish, fuel-efficient motorcycles under 150cc aimed at young riders in Tier II and Tier III cities could find a loyal customer base. This approach would require a careful balance between affordability and feature offerings to meet specific consumer needs.

Sustainability will also play a pivotal role in shaping the future of entry-level automobiles. Vehicles built with recycled materials, eco-friendly production processes, and highly efficient engines can resonate with environmentally conscious buyers. These measures not only reduce the carbon footprint of these vehicles but also position them as forward-looking alternatives in a competitive market.

Although the future of entry level cars in India looks challenging given the context that car penetration is abysmally low in India (36 cars per 1000) as compared to more developed countries, it is by no means a dead end. Millions of first-time buyers and rural consumers still rely on this segment as a vital entry point, even though it may no longer control the majority of the market.

By embracing innovation, sustainability, and consumer-centric strategies, manufacturers can ensure that entry-level vehicles continue to play a vital role in India's automotive ecosystem.

In the end, the future of this segment will depend on the industry's ability to adapt and evolve. Manufacturers, policymakers, and stakeholders must work together to reimagine what entry-level vehicles can offer in an era defined by technological advancements and shifting consumer priorities.

Written by the Ipsos India Auto Expert Balaji Pandiaraj
Please get in touch: Balaji.Pandiaraj@ipsos.com