CHAPTER - I

INTRODUCTION

This introductory chapter provides an overview of the current study. It throws light on significance of two-wheeler industry and in particular Motorcycle industry, need for the study, statement of the problem, research objectives, research methodology and research design followed by the limitation of the study.
Chapter-1

An Introduction to Indian Two-wheeler Industry

Historical Development:

India is the second largest manufacturer of two-wheelers in the world. It stands next only to Japan and China in terms of number of two-wheelers produced and domestic sales respectively. This distinction was achieved due to various reasons: such as restrictive policy followed by the Government of India towards the passenger car industry, rising demand for personal transport, inefficiency in the public transport system etc.

The two-wheeler industry in India has been in existence since 1955. It consists of three segments visa, scooters, motorcycles and mopeds. The increase in sales volume of this industry is proof of its high growth. In 1971, sales were around 0.1 million units per annum. By 1998, this figure has raised to 3 million units per annum and during 2005-06 motorcycle alone 7.6 million units with a CARG (compounded annual growth rate) of 15.10 per cent.

The two-wheeler segment has been termed by Society of Indian Automotive Manufacturers (SIAM) study as the most mature and cost competitive segment of the auto industry. With sales over 4.5 million units (during 1998), it is the second largest two-wheeler market in the world.
Given the income levels in India, 80 percent of the population in rural India, the two-wheelers will continue to be the entry level of mode of transportation, till the average income levels increases above the mass motorization level.

Under the regulated regime, foreign companies were not allowed to operate in India. During sixties, it was completely a seller market with the waiting period for getting a scooter from the motorcycle segment, with only three manufacturers viz Enfield, Ideal Jawa and Escorts during sixties.

The two-wheeler market was opened to foreign competition in the mid -80's. And the then market leaders- Escorts and Enfield- were caught unaware by the onslaught of the 100cc bikes of the four Indo-Japanese ventures. With the availability of fuel efficient low power bikes, demand swelled, resulting in Hero-Honda- then the only producer of four stroke bikes (100cc category), gaining a top slot.

The first Japanese motorcycles were introduced in the early eighties. TVS Suzuki and Hero Honda brought in the first two-stroke and four stroke engine motorcycles respectively. These two players, initially commenced assembly of CKD (completely knocked down) kits, and later on progressed to indigenous manufacturing. In the 90's the major growth of motorcycle segment was brought in by Japanese motorcycles, which grew at a rate of nearly 25% CAGR (compounded annual growth rate) in the last five years.
The two-wheeler industry in India began operations within the framework of the national industrial policy as espoused by the Industrial Policy Resolution of 1956 (see Government of India 1980, 1985, 1992). The resolution divided the entire industrial sector into three groups, of which one contained industries whose development was the exclusive responsibility of the State, another included those industries in which both the State and the private sector could participate and the last set of industries that could be developed exclusively under the private initiative within the guidelines and objectives laid out by the Five Year Plans. Private investment was canalized and regulated through the extensive use of licensing giving the State comprehensive control over the direction and pattern of investment. Entry of firms, capacity expansion, choice of product and capacity mix and technology, were all effectively controlled by the State in a bid to prevent the concentration of economic power. However due to lapse in the system, fresh policies were brought in at the end of sixties. These consisted of MRTP and FERA of 1973, which were aimed at regulating monopoly and foreign investment respectively. Firms that came under the purview of these Acts were allowed to invest only in a select set of industries.
This net of controls on the economy in the seventies caused several firms to

a> Operate below the Minimum Scale of Efficiency (MSE),

b> Under-utilized capacity

c> Use of out-dated technology.

While operations below MSE resulted from the fact that several incentives were given to smaller firms, the capacity under-utilization was the result of

i) The capacity mix being determined independent of the market demand,

ii) The policy of distribution of imports based on capacity, causing firms to expand beyond levels determined by demand so as to be eligible for more imports.

Use of outdated technology resulted from the restrictions placed on import of technology through FERA.

Recognition of the deleterious effects of these policies lead to the initiations of reforms in 1975 which took on a more pronounced shape and acquired wider scope under the New Economic Policy (NEP) in 1985. As part of these reforms, several groups of industries were de licensed and "broad banding" was permitted in select industries. Controls over, capacity expansion were relaxed through the specification of the MSE of production for several industries.

Foreign investment was allowed in select industries and norms under the MRTP Act were relaxed.
These reforms led to a rise in the trend rate of growth of real GDP from 3.7 per cent in the seventies to 5.4 per cent in the eighties. However, the major set of reforms came in 1991 in response to a series of macroeconomic crisis that hit the Indian economy in 1990-91.

Several industries were deregulated, the Indian rupee was devalued and made convertible on the current account and tariffs replaced quantitative restrictions in the area of trade. The initiation of reforms led to a drop in the growth of real GDP between 1990-92, but this averaged at about 5.5 per cent per annum after 1992. The decline in GDP in the years after reforms was the outcome of devaluation and the concretionary fiscal and monetary policies taken in 1991 to address the foreign exchange crisis.

_Thus the Industrial Policy in India moved from a position of regulation and tight control in the sixties and seventies, to a more liberalized one in the eighties and nineties._

The two-wheeler industry in India has, to a great extent been shaped by the evolution of the industrial policy of the country. Regulatory policies like FERA and MRTP caused the growth of some segments in the industry like motorcycle to stagnate. These were later able to grow (both in terms of overall sales volumes and number of players) once foreign investments were allowed in 1981. The reforms in the eighties like “broad banding” caused the entry of several new firms
and products, which caused the existing technologically outdated products to lose sales volume and/or exit the market.

*Finally, with liberalization in the nineties, the industry witnessed a proliferation in brands.*

A description of the evolution of the two-wheeler industry in India is usefully split up into four ten year period (1960-69, 1970-79, 1980-89 and 1990-2000). This division traces significant changes in economic policy making. The first time-period, 1960-1969, was one during which the growth of the two-wheeler industry was fostered through means like permitting foreign collaborations and phasing out non-manufacturing firms in the industry.

The two-wheeler market has seen a major shift towards motorcycles in the recent past. Motorcycles sales constitute to grow exponentially.

Global investment bank HSBC is of the view ¹ and McKinsey report, average household income growth in India will accelerate from 3.6 per cent a year over the past 20 years to 5.3 per cent over the period 2005-2025. As a result, the middle class (which McKinsey defines as those with annual household income between 1-10 lakhs) will grow from 13 million house holds (50 million people) to 128 million house holds (583 million people-41% of the population) by 2025. The rich will grow from 1.2 million house holds to 9.5 million. As a result of these

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¹The Economic Times, Bangalore edition, Sep 2nd, 2007
shifts, aggregate consumption by the middle and upper middle will, McKinsey argues, grow 13 times during 2000-2025.

"Debate continues on how resilient India would be in the event of a severe US slow down. HSBC argues that, with exports only 22 per cent of GDP, India would be relatively unaffected compared to other Asian economies, even China." A combination of demographics and economic catch-up means that, even if the exact quantum is wrong, the overall story- in the absence of a major change in India's and the world's economic fortune- is hard to dispute.

Unlike the passenger car or commercial vehicle segment, WTO commitments are unlikely to pose any major challenge for the Indian two-wheeler industry. The only concern could be potential dumping by other Asian countries into the Indian market. For the next millennium, the challenge before the two-wheeler industry is to take on the global Japanese player in the export market and build upon the domestic market by developing a world class product and process capabilities.

The Society of Indian Automotive Manufacturers (SIAM) study recommends a cohesive trade policy for the two-wheeler, has been identified as a thrust area with an export target of over two million by the year 2010. The two key issues which the trade regime should address are the importance of negotiating bilateral
agreement for permitting free trade between India and some key markets like Pakistan, China, Africa. The government should also initiate a market development fund for brand building and distribution of Indian products.

India exports five percent of its two wheeler production, majority of them to SAARC nations like Bangladesh, Sri Lanka etc. As market size in these economies is small, the industry needs to identify new markets if it has to achieve the vision of exporting 20 percent of domestic production by 2010.

Indian players were not in need of export market, as domestic demand was too high. Also there exists a significant gap in technical capabilities between Indian manufacturers and their Global competitors.

On technology front, the government needs to facilitate import of technology as well as the development of indigenous product design skills and Innovations. The government should offer incentives to independent auto design firms to set-up shops in India.

Competition is the core of the success or failure of firms. Competition determines the appropriateness of a firm's initiative and activities that can contribute to its performance, such as innovations, a cohesive culture,
or good implementation of various marketing tools- 4P's. Competitive strategy is the search for a favorable competitive position in an industry; the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.

Competitive strategy aims to establish a profitable and sustainable position against various controllable and uncontrollable forces. Two central questions underlie the competitive strategy.

1> The attractiveness of industries for long-run profitability and the factors that determine it.

2> The determinants of relative competitive position within an industry.

In a two wheeler industry, some firms are much more profitable than others, regardless of the average profitability of the industry.

Industry attractiveness and business strength/competitive position are dynamic.

The field work attempts to reveal comparison of marketing mix, the effect of Competitive Strengths during various stages of market Life Cycle of:

- Entry level / Economy, Executive and Premium level bike segments.
"Five competitive forces that determine the attractiveness of an industry and their underlying causes"² are as follows. It also shows how to analyze competitors, to predict and influence their behavior.

The five forces that shape industry competition.³

The Five Forces That Shape Industry Competition

² "Competitive Advantage" Creating and sustaining superior performance by Michael E. Porter
³ "Competitive strategy" Techniques for analyzing Industries and Competitors by Michael E. Porter
Published by Free Press.
Existing competitors: Honda Motor Cycle and Scooters India (HMSI), Suzuki Motorcycle co, Hero Honda, Yamaha, Bajaj and TVS

Suppliers Bargaining power: Components, Assembly units, Paint, Forgings & steel sheets suppliers

Potential entrants: Kawasaki Motorcycle Co, Harley-Davidson (of U.S), Dacatti (of Italy)

Substitutes: Electric Bikes, low cost mini cars Tata’s Rs 1 Lakh “Nano”

Buyers: bargaining powers of buyers, with many offerings around.

Business succeeds by getting, keeping, and growing with customers. Customers are the only reason you build factories, hire employees, schedule meetings, lay fiber-optic lines, dispatch service trucks, stock inventory, file for patents, operate call centers, negotiate contracts, write software, or engage any other kind of business activity whatsoever.

"Without customers, you don't have a business. You have a hobby" 4

In today's business world, customers are even scarcer than capital. If one has a customer for the business, one can almost certainly get the capital one need to serve the market.

4 "Return on Customers" by Don Pepper and Martha Rogers Ph D published by Currency Doubleday
To remain competitive, you must figure out how to keep your customers longer, grow them into bigger customers, make them more profitable and serve them more efficiently.

Competitive advantage grows fundamentally out of a value; a firm is able to create for its buyers that exceed the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price.

*The Synergy Approach:*

Opportunities to build value via diversification, integration, or joint venture strategies are usually found in market-related, and management activities. We can find this in case of TVS Motor Co Ltd, moving into Jakarta to manufacture and market "Neo"

*Statement of the problem*

This research, therefore, attempts to appraise the key aspects of various marketing policies and practices of two-wheeler manufacturers—a comparative study of Bajaj Auto Ltd (BAL) and TVS Motor Co Ltd (TVS). An appraisal has a major implication for firms within the industry. While linkages between BAL
and TVS could be pertinent to in the context of competitive strategies, the analysis of product innovations & developments, price movements, effect of various promotional methods and intermediary net work in the two-wheeler industry are of great importance.

Hence the topic of this study "An appraisal of Marketing policies and practices of two wheeler industry-a comparative study of Bajaj Auto Ltd and TVS Motor co Ltd"

Based on the outcome of this research work, the sales growth rate - both in terms of the number of motorcycles and the revenue, market share, profitability, country's global image and employment generation could be converged- the sum total amounting to an increased contribution to the GDP of the nation.

**Objective of the study:**

- Comparison of Marketing policies - Product, Pricing, Promotional and Distribution policies and practices of Bajaj Auto Ltd and TVS Motor Co Ltd. To understand the influence of marketing mix- 4 P's (Marketing tools) and practices on Motorcycle buyers, Distributors/dealers and on the market share.
- The effect of marketing mix (4 P's) on the sales volume/value growth rate, market share, profitability, country's global image and employment
The study has covered the geographical areas of metros-Chennai, Delhi, Kolkata and Mumbai, State capitals, major cities and important districts and taluks, which have commercial activities, tourist/pilgrimage centers, industrial activities, healthcare centers.

The study is on the common product range—Motorcycles, which contributes maximum sales revenue to Bajaj Auto Ltd and TVS Motors, as Bajaj has three-wheelers and geared Scooters apart from motorcycles, whereas TVS has mopeds and Scooty apart from motorcycles.

The study has grouped the data collected from distributors, dealers and consumers on a regional basis categorized under North, East, West and South.

The scope of the study also extends briefly to the Policies and practices followed by world famous, century old Motor cycle manufactures like Harley Davidson, USA and potential competitors-Suzuki Motor Cycle Co, Kawasaki Motor cycle co, Honda Motor cycle co. all from Japan’s stable and Hero Honda Motor Cycle Co of India.

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Limitation of the study and further research avenues:

This field work is exploratory given the qualitative methodology employed in exploring the subject under study. This study is limited to major cities and towns, which are concentrated with industry, business, banking, tourist places, healthcare centers. It would be useful to extend the number of cities, towns and rural areas. It may also be worthwhile to add more parameters- such as long term financing. Theoretical extensions and comparing the findings of this study with existing theories is another possible avenue for further research.

Research Methodology:

It is a descriptive type of research aimed at comparing various marketing policies and practices followed by Bajaj Auto Ltd and TVS Motor co Ltd. The study mainly dwells on the primary data from Distributors, dealers and consumers of existing bike users for addressing and comparing the policies.

Data Collection:

➢ Primary data:

Administering the structured questionnaire to distributors, dealers, bike users, and interview with open ended questions with company's (sample under consideration- Bajaj and T V S) senior executives
Secondary data:

Annual reports of Bajaj Auto Ltd and TVS Motor Co Ltd., CME, Web sites of Bajaj and TVS Motor Co Ltd, Honda, Suzuki of Japan , Harley-Davidson of U.S. Harvard Business Review, Crisil’s reports, Business newspapers and Journals, Asia Wall street Journal, working papers, ACMA (Automotive Components Manufacturers Association),CII (Confederation of Indian Industries), SIAM (Society of Indian Automotive manufacturers) EBSCO,

Sampling technique: Non-probability sampling technique:

- Convenience sampling method for metros and major cities.
- Judgmental sampling at District and taluks level.

Details of places visited to administer the questionnaire is given in the annexure.

Sample universe

The sample universe includes existing bikes users and distributors/dealers.

Sample Size: each distributor, dealer and bike user.

Respondents: Number of Distributors and dealers 243

Number of Bike owners (customers) 315
Research Design:

The study has been covered under eight chapters. The result of each chapter has complemented the problem of appraising the key aspects of various marketing policies and practices of two-wheeler manufacturers-a comparative study of Bajaj Auto Ltd and TVS Motor Co Ltd.

Chapter I: Introduction

Presents an overview of historical development and growth of two-wheeler industry in India, economic policies of Government of India, and liberalization policies in nineties, which witnessed a proliferation in brands, GDP, MRTP, and FERA.

The chapter deals with the skeletal framework of the whole study, research methodology and research design. Explanation for the technical terms (pertaining to motorcycle) used in the study are made available.

Chapter II: Review of Literature.

An overview of various research papers / case studies that has been undertaken on two-wheeler industry and in particular Motorcycles.

Chapter III: Growth and development of Bajaj Auto and T V S Motors.

Company profile of Bajaj Auto Ltd and T V S Motor Co Ltd, business growth since inception. Recent innovations, technological improvement of products, process and market development strategies.
Chapter IV: Appraisal of product policies

New product development is said to be the lifeblood of a company. This chapter dwells with the policies adopted by Bajaj Auto and T V S Motor Co for investment in research for Product development of new bikes, up-gradation of existing bikes, and recent trend in customers buying behavior.

Chapter V: Appraisal of pricing policies

A study has been made to understand the effect of pricing policies of various variants/ up-graded versions, new product, on consumers in relation to consumer perceived value- Value for money, Style, Performance, Fuel economy and Fun-to-ride.

Chapter VI: Appraisal of Promotional policies

Covers a macro level study of promotional policies for the period 2002-03 till July 2007. Also analysis of relationship among Promotion, Promotional mix and integrated marketing mix.

Chapter VII: Appraisal of Distribution Policies

Dwells with, the effect of distribution/channel policies on the market share, Sales revenue, profitability, competitive edge and the relationship with channel members.
Chapter VIII: Findings, Conclusion and Recommendations:

This chapter summarizes the major findings of effect of Product policies, pricing policies, Promotional policies Distribution/Channel policies of Bajaj Auto and TVS Motors and recommendations based on the study.

Also implications for further research work.
A note on technical terms used in the study:

**Engine:**

Engine, basically consist of a cylinder inside which a piston moves up and down, compressing air-fuel mixture and pushing out the burnt or exhaust gases. Power develops after burning the air-fuel mixture inside the engine cylinder, which is transferred through the crank shaft.

**Cylinder:**

Cylinder is part of the engine where combustion take place. It has inlet port through which air-fuel mixture enters and exhaust port where burnt/exhaust gases go out.

**Inlet and Exhaust Valves:**

Inlet and exhaust valves are part of the engine, inlet valve allows air-fuel mixture to enter and exhaust valve allow the exhaust gases to go out.

**Clutch:**

Clutch lies in between the engine and the gear box, to disengage the engine, while changing the gear.

**Gear Box:**

Gear box enable to engage or disengage gears while changing the gear for different speeds.
Spark Plugs:

Spark plugs are fitted on to the engine cylinder from the top with the protruding end inside the cylinder, to ignite the air-fuel mixture.

Power is transmitted from engine to gear box through clutch and from the gear box to the rear wheel through the transmission chain.

Bhp:

Brake Horse Power that is the power available at the rear wheel of the bike.

Power to weight ratio:

Power (Bhp) available per weight of the engine. Normally mentioned as bhp per weight of the engine in Kgs.

RPM:

Revolutions per minute of the engine crank shaft.