PREFACE

We would like to identify and compare the performance between diversified and not so diversified firms to select the best alternative whether tyre manufacturers diversify or not to diversify. Different responses like declining market demand, growth, market share and profitability will help in finding answer to the above question. My purpose in this research is to construct a practical framework for the chief executive of different type manufacturing companies and different paths. The purpose of this research is to synthesize and unify into an overall analytic approach to solving the diversification problem of the tyre industry.

In tyre industry quality and productivity both are competitive. The firm faces the decision whether or not to diversify. We explore conditions under which diversification is indicated to relate the decision to management attitudes toward risk, and guiding the course of a firm toward its objectives. Management of business firm is a very large complex of activity which consists of analysis, decisions, communication, leadership, motivation, measurement and control. Peter Drucker has said, “The end-product of management are decisions and action”. Our interest is in particular part of the total space of the decisions, to select the best alternative whether tyre manufacturers diversify or not to diversify.
Why firm diversify? What were the conditions when company diversified? We explore alternative directions for diversification and relate these to the objectives of the firm. Joseph T. Wright says, “I don’t know of any more difficult management problem that that of diversifying. While diversification is fine as a matter of abstract principle, it can result so many different eggs in one basket that nothing really significant is hatched out of any of them”. A layer of management was created in these firms divorced from operating responsibilities and charged with formulation of policy and strategy, planning and performance appraisal. A number of papers are available in management literature which list many different reasons.

**Indian Automotive Tyre Industry**

In the tyre industry quality and productivity both are competitive. The need is to evolve an appropriate strategy for expansion of the productive base of the industry, at times it is beyond the capacity of existing managements to make their units efficient.

**Highlights**

- The tyre industry is a Rs. 9,000 crore industry.
- The fortune of this industry depends on the agricultural and industrial performance of the economy, the transportation needs and the production of vehicles.
In the last five years (1994-95 to 1998-99), the industry managed to achieve a compounded annual growth of only 4.40 percent. However, in the last fiscal industry registered a growth of 7 percent.

Natural rubber constitutes 25 percent of the total raw material cost of the tyres.

The ratio of the natural rubber content is 80:20 over the last decade main in the domestic auto industry. Though the replacement market has driven the OEM market has seen a robust growth over the last couple of years.

The industry is highly capital intensive, as it requires around Rs. 4 bn to setup capacity of 1.2 mn tyres and around Rs,1.5 – 2 bn for a cross ply tyre plant of the tyres.

The profitability of the industry has high correlation with the price of key raw crude oil as they account for more than 70% of the total costs. The raw material is around 65%.

The industry has high entry barriers because of its capital intensive nature a demand increasing at a steady pace, the industry is expected to go through.

**Sector Comments**

Ever since the first Indian tyre company, Dunlop Rubber Company (India) was incorporated in 1926, the tyre industry has grown rapidly and today it is Rs. 9,000 crore industries. India has 2.61 lakh
villages, connected by 6.23 lakhs kms of metalled roads and 9.81 lakhs kms of unmetalled roads. These villages are linked to small towns and cities. There is a daily traffic of over 4.12 lakhs trucks, 1.27 lakhs buses, 7.23 lakhs cars and thousands of taxis, two wheelers, three wheelers, tractors and animal drawn vehicles on Indian roads.

**Market Players**

Some of the major players in the Indian tyre industry are MRF, Ceat, JK industries, Apollo, Bridgestone India, Goodyear India and TVS Srichakra. The tyre industry in India is fairly concentrated, with the sample of eight companies (as in the text) accounting for 82% of production in FY 2002. Besides, not all companies have a diversified product portfolio.

In the first chapter, the meaning of diversification in studied with reference to the Indian Automotive Tyre Industry. In this chapter, growth and structure of Indian Automotive Tyre Industry is also analysed.

In the second chapter, the overview of Indian Automotive Industry is studied with reference to trends in production, consumption, price and capacity utilization. In this chapter, the replacement market for tyre industry is analysed.

In the third chapter, the research and development of the tyre industries in India with engineering technology is studied. Also, the
Product and Process innovation is also studied taking into account the Indian Automotive Tyre Industry.

In the fourth chapter, Internal and the external reasons for the tyre industry to be diversified is studied and analysed.

In the fifth chapter, the demand supply gap for the Indian Tyre Industry is analysed. Also, the economics of large scale production of Indian Tyre Industry is studied.

In the sixth chapter, two decades performance of Indian Automotive Tyre Industry is studied with the SWOT analysis. Review of performance of the Indian Tyre Industry is also studied in this chapter.

In the seventh chapter, the consolidation of the Indian Automotive Tyre Industry is studied and analysed.

In the eight chapter, some conclusions are made for the Indian Automotive Tyre Industry, with some recommendations for its future.

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