PEST ANALYSIS FOR INDIAN TWO WHEELER AUTOMOBILE INDUSTRY

Prof. Mahesh K. Patel, Prof. Kalpesh B. Prajapati***
*Head of Department,N.P college of computer Studies and Management, BBA Dept., Kadi
**Assistant Professor, S.V. Institute of management,Kadi, KSV University, Gandhinagar

ABSTRACT

The domestic two-wheeler industry recorded sales volumes of 13.8 million units in 2012-13, a growth of 2.9% over the previous year. This pace of expansion was significantly slower than the 13.7% volume CAGR posted by the industry in the last five years. In the past, India's per capita real GDP growth at 8.6% (CAGR) over the six year period 2005-2011 had contributed substantially towards raising the standard of living of households, which in turn had been one of the key drivers of growth for the country's automobile industry. But over 2011-12 and 2012-13, inflationary conditions, firm interest rates, rising petrol prices as well as weak monsoons adversely impacted disposable incomes causing a consumption squeeze. Over the long term, the trend in rising Two wheeler penetration in households in the addressable income segment (already reached around 80%) is an added concern implying difficulty in sustaining penetration-driven growth over an extended time horizon. For the domestic Two wheeler industry to revert closer to its historical growth trend line any time soon, the pie of total number of target households will need to expand. This in turn would depend on the pace of India's economic growth recovery that could (a) boost personal disposable incomes and resultant consumption growth, (b) pull up the un-penetrated households from a low income segment to the next higher income segment, (c) further enable increase in the number multiple two-wheeler households, enabling penetration supported rise in 2W demand. Even on the exports front, the year 2012-13 was a period of weak growth for the industry with volumes at 2.0 million units declining by 0.7% over the previous year.

This paper highlights the Pest analysis of Indian two wheeler Market and to discuss the competitive scenario and the future of the two wheeler market in India.

Key Words: PEST analysis

Introduction about the Industry: The automobiles sector is divided into four segments – two-wheelers (mopeds, scooters, motorcycles, electric two-wheelers), passenger vehicles (passenger cars, utility vehicles, multi-purpose vehicles), commercial vehicles (light and medium-heavy vehicles), and three wheelers (passenger carriers and good carriers).

The world standings for the Indian automobile sector, as per the Confederation of Indian Industry, are as follows:

- Largest three-wheeler market
- Second largest two-wheeler market
- Tenth largest passenger car market
- Fourth largest tractor market
- Fifth largest commercial vehicle market
- Fifth largest bus and truck segment

India is the second largest producer of two-wheelers in the world. In the last few years, the Indian two-wheeler industry has seen spectacular growth. The country stands next to China and Japan in terms of production and sales respectively.

Indian Two Wheeler Market Analysis April-May 2013: Scooter Segment grows at 13.88% while overall market grow by 1.04%

Indian two wheeler industries saw a slight growth of 1.04% during the April-May period of 2013 compared against the same period of 2012. Hero Motor Corp is the biggest manufacturer in Indian market who sold 1,035,823 units during April-May 2013, thus registered a 3.54% decline in sales as against same period the previous year where 1,073,815 units were sold. The provision of giving 5 year warranty on every vehicle didn't pay off well for Hero. The notable highlight of the period is the flourishing sales of Vespa, as they sold 8280 units during the period April-May 2013 and posted a growth of 247.02% as against same period last year. Honda, Yamaha and Royal Enfield had also posted growths while Suzuki sales took a downturn.

The period April-May of 2013 saw the share of Hero came down to 43.63%. Honda gain some shares and put themselves at second place replacing Bajaj. Honda holds

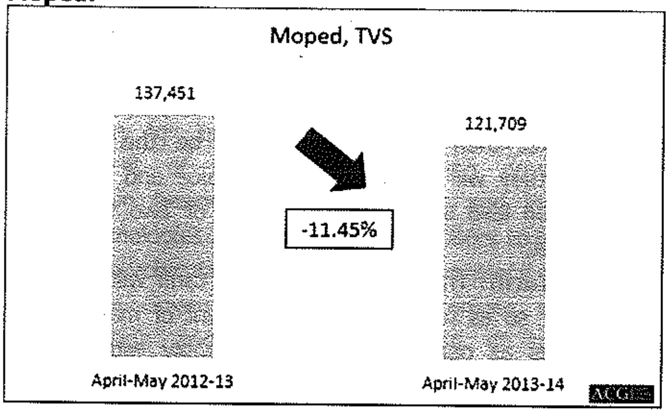
19.79% share as per April-May 2013 while Bajaj has now 17.35% share.

Segmental Analysis:

Motorcycles: Sales of Hero declined by 7.27% while Yamaha also saw their sales went down by 9.39%. Apparently Honda registered 21.33% growth. Royal Enfield and Harley Davidson also wrapped up the month with concrete sales figures. Triggered by the decline of sales Hero's share in motorcycle segment came down to 53.60% for April to May period of 2013. Their former partner Honda with improved share of 11.67% stays as third place in terms of sales in Indian two wheeler market.

Scooters: The sales of scooter witnessed an encouraging growth by 13.88% in the April to May period of 2013 as compared to same period of 2012. Hero motor Corp had fared an uplifting growth of 44.94% during the period April-May 2013 as against April-May 2012. The newly launched Vespa has also reassured hopes for Piaggio as 8280 units were sold out in April – May this year. M&M has suffered a steep decline of 48%. Honda remains mater leader in this segment and owns 50.92% of market share. Hero has again grew in market share for the period April-May of 2013 and now holds 21.07% of Scooter market share. To recapture the lost market share, Honda has now introduced 110cc Activa-I priced at around Rs 44,000 and this will provide tough competition to Hero and Suzuki in coming months.

Moped:



TVS is the lone player in moped segment. But their sales had declined by 11.45% for the period April-May of 2013 as against same period the previous year. To increase Moped sales, TVS has started TV commercial recently.

Source: ACG, SIAM

Research Methodology:

Objective of the Study of Product Market and PEST Analysis:

Indian two wheeler Industries is one of the fastest growing Industries and the growth is highly due to motorbike segment. With the liberalization of the economy, India has become the playground of the major global automobile. The whole automobile Industry is very large field for research, so we have chosen two wheeler industries for the study.

Research Design, Data Collection & Sources:

The Information collect in the project is mainly based on the secondary data there is no research design, no primary data collection in the project. While secondary is mainly collected through

- Websites
- Magazines
- Books
- Newspapers
- Articles

Consumer Behaviour:

In India, consumer wants a low cost product with best attribute so marketers should focus on advance technology and advance R&D. consumers inviting Product innovation that can share up the structure of competition by broadening an industry's customer base, rejuvenating industry growth, and widening the degree of the product differentiation among rival sellers.

Indian motorcycle maker's gives latest models with new and better features continually, companies are now days focus on value added features in bike (e.g. Mag wheel, Disk break, Electric Start, Multty Reflector Light mono suspension). Companies are focus on new design, with great combination of Engine power and fuel efficiency. The innovation rate is very high and Indian customers adoption rate is also higher so many new product are also getting success.

Growth Prospects:

Key Factor does believe that future for Indian Automobile industry is really bright and all the sub segments shall witness growth. Major Drivers would be Strong local demand, rising per capita income, establishment of India as global auto hub, product innovation and multi financing options.

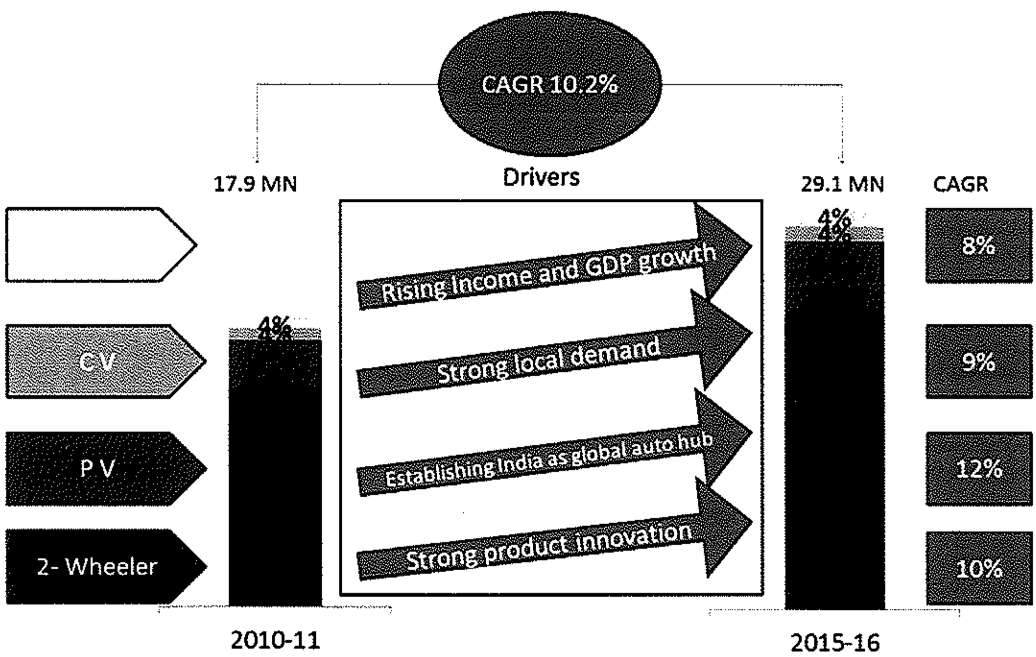


Fig.1 Growth estimates and demand drivers

Implication:

As shown in Fig 5, Indian Automobile segment shall increase from 17.9 million units in 2010-11 to 29.1 Million units in 2015-16 and shall be in excess of 120 billion dollar industry by then.

Passenger Vehicle segment shall cross 5 million units and Commercial Vehicle and three wheeler each shall cross 1 million units. So, coming years shall establish India more strongly as base for Automobile manufacturing and which in ripple affect shall lead to demand increase in R&D, Engineering services and other service industries as off shoring.

Pest Analysis

PEST analysis includes Political/Legal Factor, Economic Factor, Socio - Cultural Factor & Technological Factor. Every Industry has to consider these factors because these factors can create opportunity or threat at regular period of time. Let us see each and every factor which will help us in analyzing the situation of Two -Wheeler Industry.

1. Political & Legal Factor

Foreign Direct Investment: Automatic approval for foreign equity investment unto 100% of manufacture of automobiles and component is permitted. It is an attractive stapes for multinational firm who are willing to enter in Indian market. Initially there was rule of partnership in auto mobile and Hero Honda is result of that policy but due to this rule many international firm attracted to invest in Indian auto sector.

Implication:

As Foreign Equity Investment is allowed up to 100% of Manufacture of automobiles and Component which will lead to attract more Foreign Players in the Indian Two Wheeler Industry due which there will be two effects on Market Positive and Negative.

- **Negative Effect:** As the number of players will attracted in Indian Market which will create more competition in the market. So it may have negative impact on existing players.
- **Positive Effect:** As the number of players increases in the market then the Consumer will be the beneficiary because they will get much more choice and increase in competition lead to decrease the price of Two Wheelers in the market.

Import Tariff: The incidence of import tariff will be fixed in a manner so as to facilitate development of manufacturing capabilities as opposed to mere assembly without giving undue protection; ensure balanced transition to open trade; promote increased competition in the market and enlarge purchase options to the Indian customer. The Government will review the automotive tariff structure periodically to encourage demand, promote the growth of the industry and prevent India from becoming a dumping ground for international rejects.

Implication:
This is true that the incidence of import tariff plays a very dominate role to facilitate development of manufacturing capabilities as opposed to mere assembly without giving undue protection. Again Import tariff have positive Impact on our Industry.

- **Positive Effect:** Positive Impact on the existing players if the government will review the automotive tariff structure and Increase it from existing 60 Per cent because increase in Import Tariff lead to increase the price of the imported vehicles and the existing company will be beneficiary to provide the vehicles in affordable prices with quality orientation.
- **Negative Effect:** On the negative the domestic player may get the competition from the Global Player.

Safety: Government will duly amend the Central Motor Vehicles Rules, Bureau of Indian Standards (BIS) and other relevant provisions and introduce safety regulations that conform to global standards. It is the step of safety only due to which many state of government imposing the rule of helmet. This rule of Helmet is compilers in the big metropolitan city including New Delhi, Maharashtra, Karnataka, Gujarat etc.

Implication: There will be no effect on the demand of Motorcycle but yes of course on the demand of Helmet as it is the drive demand which increase with the selling of motorcycle.

Improving Road Infrastructure: Traffic on roads is growing at a rate of 7 to 10 per cent per annum while the vehicle population growth for the past few years is of the order of 12 per cent per annum. Poor road infrastructure and traffic congestion can be a bottle neck in the growth of vehicle industry. A balanced and coordinated approach will be undertaken for proper maintenance, up gradation and development of roads by encouraging private sector participation besides public investment and incorporating latest technologies and management practices to take care of increase in vehicular traffic. For the convenience of traveling public the Government shall also promote multi-modal transportation and the implementation of mass rapid transport systems.

2. Economical Factor:

Interest Rates: The interest has direct relationship with the sales of Two Wheeler. Now the loans for Two Wheeler are available at rates between 12 and 13 per cent with very easy installment basis. And even the company like Bajaj offers a loan at the rate of interest of 5.99 per cent for the purchase of Bajaj Discover.

Implication: Availability of loan at cheap rate will definitely create a good demand for Motorcycle. Availability of Cheaper and easy finance has given a big push to the demand for Two Wheelers. With the Entry of Private banks led by ICICI Bank & HDFC Bank to offer finance for two wheeler with easy installment facilities has increase the sale of Two Wheeler. Now public Sector Banks led by state Bank of India have also jumped into the fray, giving the demand for two-wheelers a big push. This demand has been further aided by two-wheeler manufacturing companies joining hands with finances companies like Bajaj with Bajaj Finance & Hero Honda with Citi Finance. Not only this but almost 70 per cent of the two-wheelers sold in India are being finance. It means the private bank had played a very important role in increasing the demand of the Two-Wheeler in the Indian Market Scenario.

Inflation Rates: The Inflation rate has direct impact on the Two -Wheeler Industry because higher the inflation rate then customer h as to pay higher the price of Two -Wheeler. Currently Indian economy faces 4.5 % approx. inflation rate, and if it further increase then it will ultimately affect on the purchases power of consumer in the two wheeler industry. Hence if the purchasing power of people reduces due to higher inflation rate, then the demand of the consumer will be decrease and loss to the Two Wheeler Industry and its player.

Implication: If the inflation rate will further increases then ultimately the price of two-Wheelers are likely to be higher in the future & ultimately affect on the purchasing power of consumer of Two Wheeler industry.

Impact Of GDP: With the all round economic growth in the country and with the GDP (Gross Domestic Product) growing at an appreciable rate around seven to eight per cent, the demand for two -Wheelers is going up at a fast pace. The total Industry growth of Two Wheeler is about 20 Per cent and the growth of Motorcycle is 26 per cent and Industry watchers expect a double - digit growth rate over the next two -three year also driven by favorable demographics.

Infrastructure: Traffic on roads is growing at a rate of 7 to 10% per annum while the vehicle population growth for the past few years is of the order of 12% per annum. Poor road infrastructure and traffic congestion can be a bottleneck in the growth of vehicle industry. A balanced and coordinated approach will be undertaken for proper maintenance, up gradation and development of roads by encouraging private sector participation besides public investment and incorporating latest technologies and management practices to take care of increase in vehicular traffic.

Social Factors:

Household income: We can divide Indian households on the bases of the household income. There are five segments in which we can divide the houses. They are destitute, aspirants, climbers, consuming class and very rich which differs considerably in their consumption behavior and ownership patterns across several of goods. These classes exist in urban and rural households both and consumption trend may differ significantly between similar income households in urban and rural areas.

Consumer Classes (annum Income Rs.)	2001	2007	2012	Change
The rich (Rs. 215,000 and more)	1.2	2.0	6.2	41.6%
The Consuming class (Rs. 45,000-215000)	32.5	54.6	90.9	179%
The climber(Rs.22,000-45,000)	54.1	71.1	74.1	37%
The aspirants (Rs. 16,000-22,000)	44	28.1	15.3	-65%
The Destitute (Below Rs. 16,000)	33	23.4	12.8	-61%
TOTAL	168.4	180.7	199.2	21%

Source: NCEAR

Implication:

The table clearly signifies that the rich and consuming class is increasing considerably and this both class are the target market for the two wheeler manufacturer. Hence the forecasting shows that the rich class will be increased by around 42 per cent and consuming class by around 179 per cent which will create positive impact on the two-Wheeler Industry and its players and their Motorcycle Model which are above segmented on the basis of Standard, Executive, Cruiser, Premium and Upper Premium because these class are afford to buy the motorcycle as per their Purchasing power.

Age Demographic: We can divide the age distribution of Indian population by the segment wise which includes Kids wise, Children wise, and Adolescents, Young adults, Mid Aged & above Aged wise.

Year	Under 15	15–64	65+	Total
2000	361	604	45	1010
2005	368	673	51	1093
2010	370	747	58	1175
2015	372	819	65	1256
2020	373	882	76	1331

The table clearly signifies that the target population who are the actual users of Motorcycle is on increasing trends taking from adolescents, Young age and some portion of Mid Age which have positive impact on the two –wheeler Industry and their player. An expanding youth population with higher disposable incomes has a positive impact on the Two-Wheeler Industry because they are the target population. Over 35 per cent of the country's population is between 15-35 years today and has good income and has high prosperity to borrow. A new consumer class for the two wheeler is fast growing in cities and towns. The phenomenon of the rising salaries in the industry segments like information technology, banking, telecom and manufacturing has been creating a new consumer class compromising the middle and high income group. Hence the Age demographic factor has positive impact on the Two Wheeler Industry and its players.

Hence in relation of Social factor the Two Wheeler industry is the major gainer because of increasing the rich & consuming class of population and also the age demographic is increasing very fastly with high disposable income which has directly positive relation with the Two Wheeler Industry and its players.

4 Technological Factors:

Government R&D Initiatives: The extension up to March 2011 of 150 per cent deduction on R&D expenditure will marginally benefit domestic two -wheeler players, such as TVS Motors, Bajaj Auto, Hero motor corp. and Honda.

Technology Push and Transfer: The technology in Two -Wheeler Industry is shift from 2 stroke to 4 stroke which is revolution in Indian Two -Wheeler Industry and had boost the demand for motorcycle because 4 stroke engine is fuel efficient and much environmental friendly.

From above factors we can conclude that now a day advance technology preferred by companies and also Indian young people, they are focus on new technology which provides new features. Trough the advance technology Marketing innovation will be implemented by the companies by putting perceptual positing and physical positing. Based on that Indian auto players adopted new marketing strategy. No one industry or company can survive without the help of the marketing. As we know that economy is running on marketing concept. Current marketing programme are Exchange offer by the Bajaj and TVS, and 5.99 per cent interest rate loan scheme by Bajaj, passport programme by Hero Honda, Gold coin offer by TVS, Holiday package offer by YAMANA, other marketing style are Gold coin offer. Holiday package, free services etc.

In future there will be trend of customization, although now days no company focuses on the customize product in bike segment, customize product gives great satisfaction to customer, and customer satisfaction is ultimate objective of marketing. It is costly affair but it is essential for increase brand loyalty when competition is high. So, we conclude that if leading auto players will not adopted a new technology they will loss their market share.

Advances in technology can dramatically alter an industry's landscape, making it possible to produce new and better product at lower cost because Indian customers are price conscious and they required best features with low price.

Conclusion

Overall we can conclude that in automobile industry a unit establishment cost is very high but As Foreign Equity Investment is allowed up to 100% of Manufacture of automobiles and Component which will lead to attract more Foreign Players in the Indian. Positive Impact of Import Tariff on the existing players if the government will review the automotive tariff structure and Increase it from existing 60 %. The interest has direct relationship with the sales of Two Wheeler. Now the loans for Two Wheeler are available at rates between 12 and 13 per cent with very easy installment basis so it will attract new consumers if the inflation rate will further increases then ultimately the price of two-Wheelers are likely to be higher in the future & ultimately affect on the purchasing power of consumer of Two Wheeler industry. Hence in relation of Social factor the Two Wheeler industry is the major gainer because of increasing the rich & consuming class of population and also the age demographic is increasing very firstly with high disposable income which has directly positive relation with the Two Wheeler Industry and its players. We can conclude that now a day advance technology preferred by companies and also Indian young people; they are focus on new technology which provides new features. Trough the advance technology Marketers are implementing perceptual positing and physical positing.

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