

# Hero vs Honda – The Race After Divorce

*An amicable divorce is a figment of imagination. Even couples that separate without gouging each other's eyes out, go their own ways with pain in their hearts and a burning desire that..*

“I will beat my other half in the game one day”

The longer the marriage, the more painful is the separation, and greater is the desire.

The Hero and Honda divorce, finalized in end 2010 is one such case. On the face of it, both separated amicably. Honda agreed to sell its share (26% stake) to Hero at half the market price (and only 25% of Hero's present trading price) in exchange for higher royalties on products.

But deep down, both had begun plotting against each other even before the divorce had been finalized.

In this case, the ‘burning desire’ on both sides was not to plot the other one's downfall – both are too big to fall. It was more an ambition to unseat the other one from their respective thrones – Hero is the biggest by volumes in India while Honda leads globally.

Both companies saw this as an opportunity to increase their volumes significantly while going hammer and tongs at the other one. In April 2011, just post the divorce; Hero MotoCorp controlled a 50.81% share of the Indian two-wheeler market while Honda had just 13.29% share. The data was clear in formulating the plans at two separate offices in Gurgaon – Hero cannot grow any further in India and had to work both at defending its share and on expanding its wings outside India. On the other hand, Honda had a huge growth opportunity in

India.

It is interesting to analyze the data from the last 43 months to see how each of the erstwhile partners has fared in their quest.

But let's start from the point of separation and see where both of them stood in April 2011.

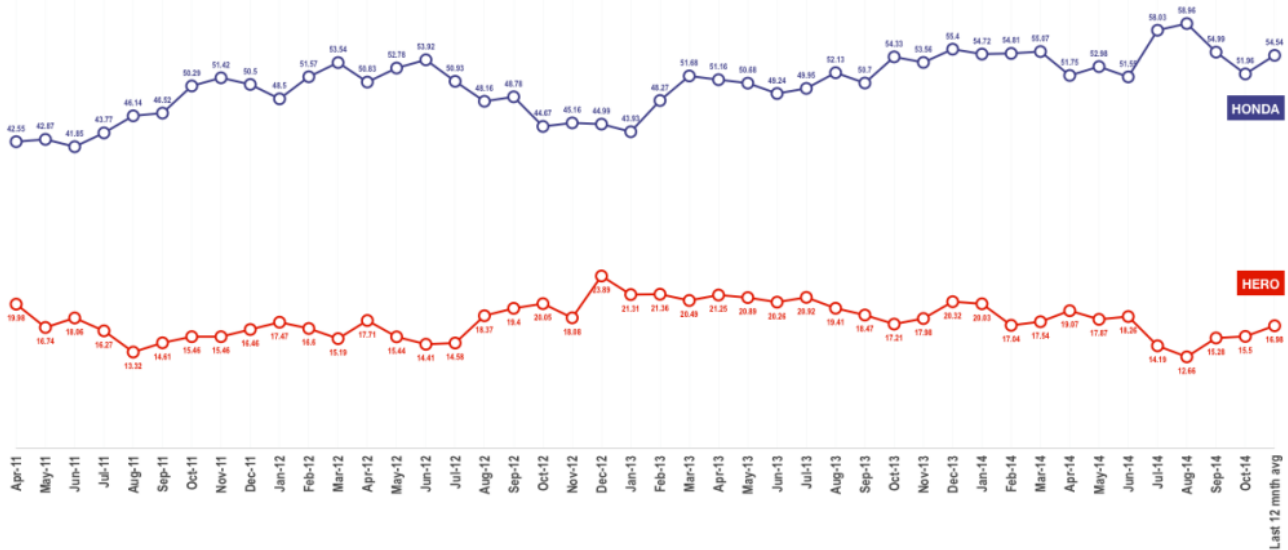
## **Hero's Strength – Brand, Network and Money Printing Machines**

In April 2011 (and even today), Hero's strength has been its formidable brand. While Hero Honda had been the gold standard for two wheeler brands since 1984, Hero and Honda separately were equally formidable, Hero more so. We will come to this later.

Hero's other strength has been its distribution network. The company has the biggest network of dealers for any two-wheeler manufacturer in the country with over 6000 touch points, including the aftersales service network.

This gigantic hydra of a network allows Hero MotoCorp to reach the farthest corners of the country and ensures that the brand is there to sell bikes to the most rural of areas as and when the average income in these areas reaches a point where people are able to afford bikes.

## SCOOTERS MARKETSHARE



All data – SIAM; making it readable – EMMAAA

Over the last many years before the separation, Hero Honda had been focusing on the rural market. This had allowed the company to achieve a rapid volume growth, much faster than the competition. It is estimated that in April 2011, nearly half of Hero Honda's sales came from the rural and semi-urban areas.

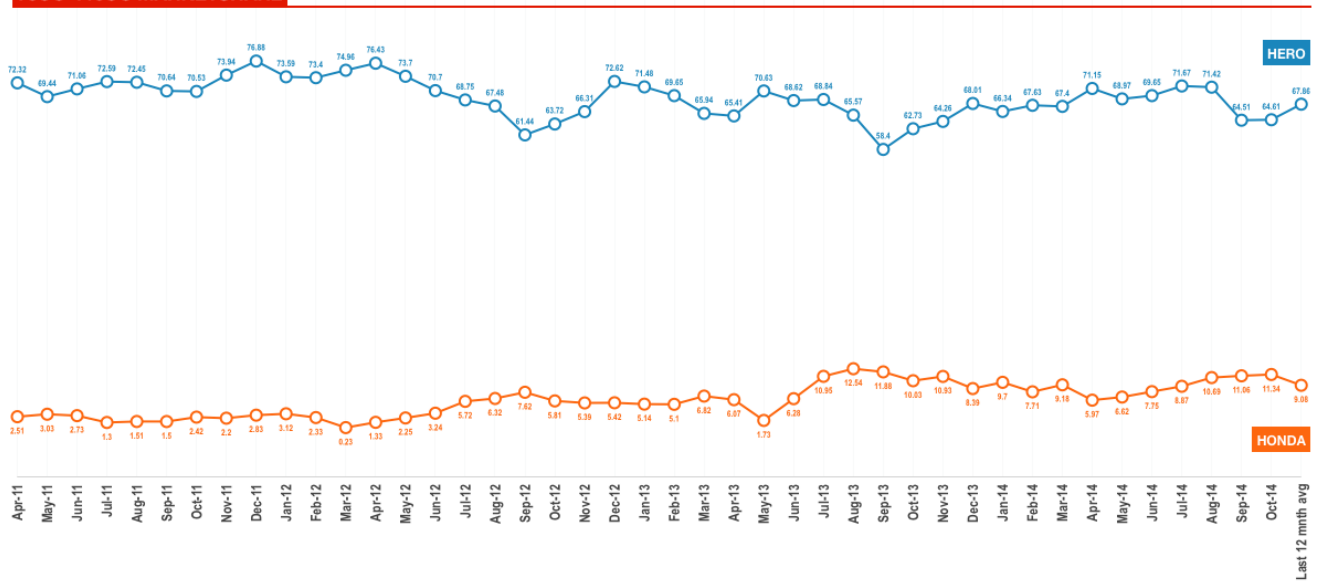
Looking at the brand aspect from the distribution point of view, Hero definitely has a huge edge over Honda, a gap that the Japanese manufacturer is working hard to fill.

The Indian brand's other main attribute is dependability that the brand has been able to hammer down by churning out machines with impeccable quality and a build to last character.

The bottom end of the market, the end where Hero gets its bread and butter and cheese and dividends, demands machines that are long lasting. A motorcycle is a big expense for rural customers and it is not something they can replace every 2-3 years. The rural customer would be willing to settle down for fewer features but will not compromise on the longevity of the machines.

And that is where Hero's Splendor / Passion range of motorcycles have hit the bulls eye. Literally maintenance proof in nature, these 90cc-110cc bikes have been known to last for a decade and beyond, requiring very little maintenance. Such a long life results in terrific brand loyalty and Splendor customers have been known to return to Hero showrooms to buy another Splendor or upgrade to another Hero bike.

75CC-110CC MARKETSHARE



This durability and longevity of the machines has been the characteristic difference between Hero MotoCorp and Bajaj Auto. The Pune based Bajaj Auto has seen repeat failures in the bottom end of the market – from Caliber to Discover to Platina and to Discover Gen 2, Bajaj Auto has never been able to pose a serious challenge to Hero MotoCorp's Splendor and Passion range.

At the same time, Bajaj Auto has found tremendous success in the higher capacity, sporty commuter / sports bike market where customers start looking at the next upgrade months into a new bike purchase. The life of the bike is never in question and is seldom tested.

Again, looking at the brand through the durability attribute,

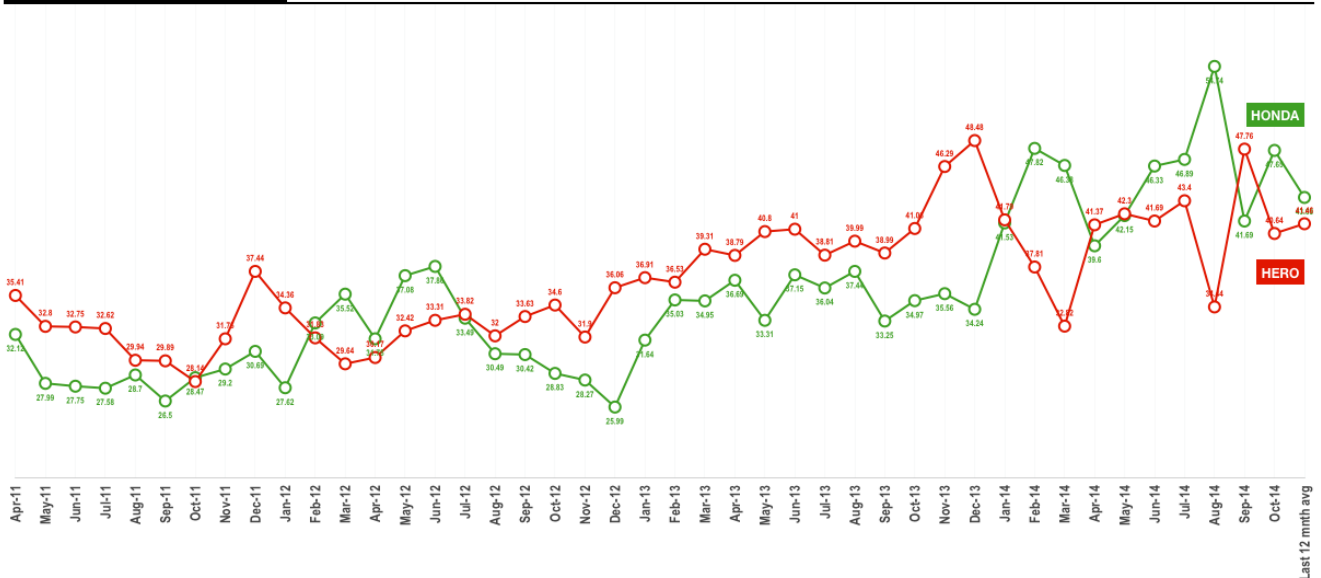
Hero comes out stronger. While we have no doubt on Honda machines' durability, the residents of Jauniawas, a village not far from Hero's Dharuhera, Haryana plant, having used Splendors all their life would still associate the machine with the Indian brand.

To them, Honda is a good Japanese brand, but so are Yamaha and Suzuki. Honda too realizes its disadvantage vis-à-vis Hero and has started working on its brand communication using, amongst other things, a Bollywood star.

On the other hand Hero is supremely confident of its brand. Its confidence is reflected in the fact that while Hero MotoCorp was allowed to use the Hero Honda brand on its machines till March 2014, it removed Honda from products as early as March 2012, i.e. within 15 months of the divorce.

Hero has also done well with making most of its money from a single model and its 15 variants. Using the Honda Cub / Splendor platform, Hero has been able to sell nearly half a million motorcycles every month on the same mechanicals. This results in terrific economies of scale and nice profit margins for both the manufacturer and its suppliers.

**110CC-125CC MARKETSHARE**



Unlike passenger cars, or even sports bikes, which have a

lifecycle of 6-7 years after which significant changes are needed to the mechanicals and platform, econo-commuter bikes, the segment that Splendor & passion target, need very little to keep them going. The Splendor platform is nearly 30 years old (derived from the CD 100) in India and much older overseas. While it has been evolving over time, the basic mechanicals have stayed the same. EMMAAA estimates the Splendor's mechanicals to continue in the same form for another twenty years.

What also helps the long continuity of the platforms is the resistance of the market to new technologies like fuel injection systems. Due to the small size of the engine, a fuel injection system offers very small incremental gains over a conventional carbureted engine. At the same time the incremental price increase is significant as the volumes of fuel injection systems are still small. The result – most of Hero's range has stayed carbureted even though the manufacturer has made up for it by adapting innovations like stop-start technology and improving the efficiency of its engines.

This continuation of old generation platforms is critical for Hero's continued success. On one hand, it ensures that Hero's share of the market is preserved and at the same time, the manufacturer prints so much money off two products that it can invest significantly into areas like new plants, product engineering, R&D and even acquisitions.

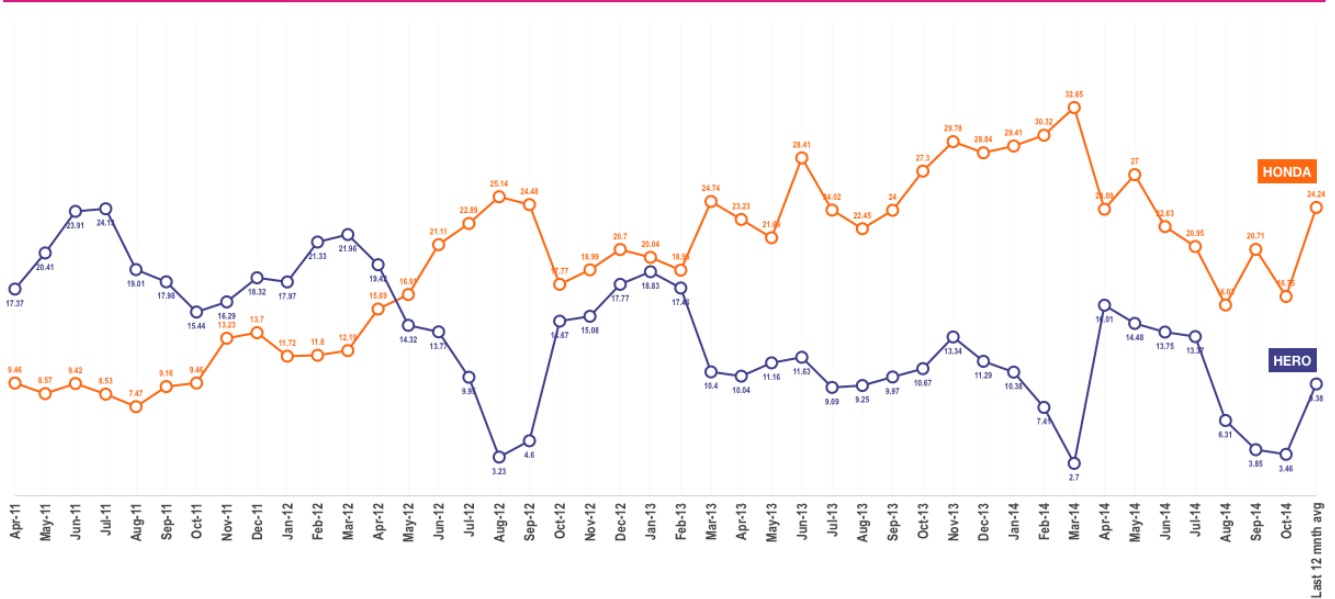
## **Honda's Strengths: A Strong Spine**

As things stand, Hero has been able to transfer most of Hero Honda's goodwill to Hero MotoCorp. Honda has a good brand name but while the urban end of the market is ready to reward Honda for the brand name, the rural end would be difficult to convince, especially with Hero targeting the same buyers. This is primarily the reason why Honda is facing a stiff challenge

in the lowest end of the market 90cc-110cc.

This is also the reason why Honda has launched the CD 100 Dream, a very basic motorcycle targeted at the entry level end of the market and one which has more than a fleeting resemblance to Hero's Splendor and HF Deluxe range (earlier known as CD range).

125CC-150CC MARKETSHARE



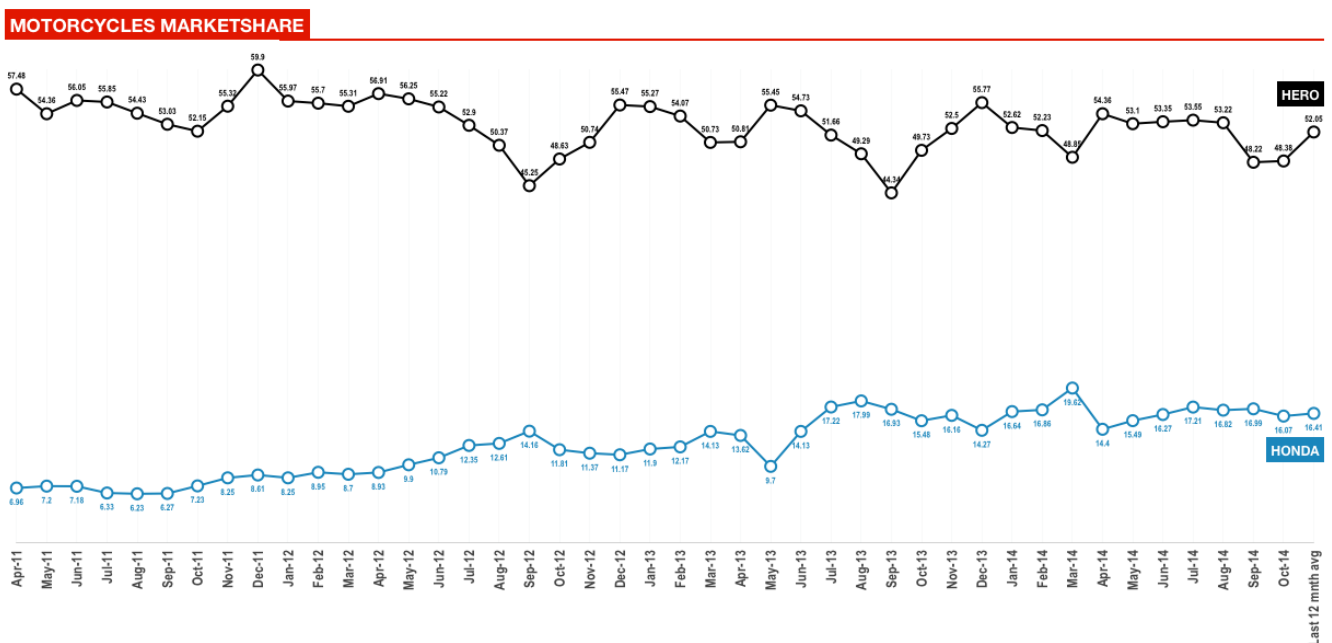
Honda's strength is its hard-work and product engineering strengths. While commuter motorcycle technology is not rocket science, it is still a technology and can be improved. Honda does have an edge over Hero in product engineering considering the Indian brand has just now started spending money on R&D.

Honda also manages to get some rub-off from Hero Honda considering it was one half of the partnership. Considering the technology for the Splendor and Passion came from Honda and most of the positive attributes in the products are more Honda than Hero, the Japanese manufacturer has been working hard on its communication pointing out that it is the real deal.

# Hero's Problems and Its Way Forward

Hero's main problem is its complete historic dependence on Honda for technology. Everything that Hero has come from Honda. Now with the Japanese manufacturer exiting the joint venture, Hero has to take care of the technology requirements of future product offerings. Luckily, due to the long product life of most of its range, developing a new product is not a fire-fighting mission. Hero does have the time to gather a team, set up a R&D department, field an army of engineers in product development and acquire a couple of questionable, European tech companies.

It has done all of the above. The Hero skunkworks is rolling and the next generation of products would come with Hero technology. Thankfully, Hero has taken a holistic approach to R&D and not just focusing on developing the next generation of Splendor. So the R&D efforts are also pursuing several radical and exotic projects like hubless steering and hybrid engines. While none of these would come down to the next generation Splendor level, they do impart a certain maturity to the Hero R&D team and would have a positive rub-off on future generation Splendors.





Hero has also beefed up its R&D by acquiring Erik Buell Racing and Engines Engineering. Both are acquisitions similar to Facebook and Twitter acquiring many technology companies – more about the talent being acquired than about the products being added.

Hero has also taken a pragmatic approach towards product engineering. Knowing that every R&D operation, irrespective of how much money you throw into it, takes some time and at least one generation of products, to get into its groove, the company has decided to focus its engineering efforts at higher capacity motorcycles. They have deliberately left the Splendors and Passions alone. This ensures that the bread-and-butter products won't get hurt by engineering botch ups while Hero can learn product engineering at the expense of much smaller volume products.

## **Honda's Weaknesses and the Way Forward**

On the other hand, Honda's problem is the distribution network. While Honda Motorcycles & Scooters India has been operational in India for nearly 15 years now, the company's dealer network is still small. This lack of penetration is especially a problem in rural and semi-urban areas and restricts Honda's growth in the 90cc-110cc segment.

Honda identifies the problem and the company has grown its dealer network aggressively over the last few years. However, it will take a few more years for the network size to match Hero's.

## **The Story After the Split**

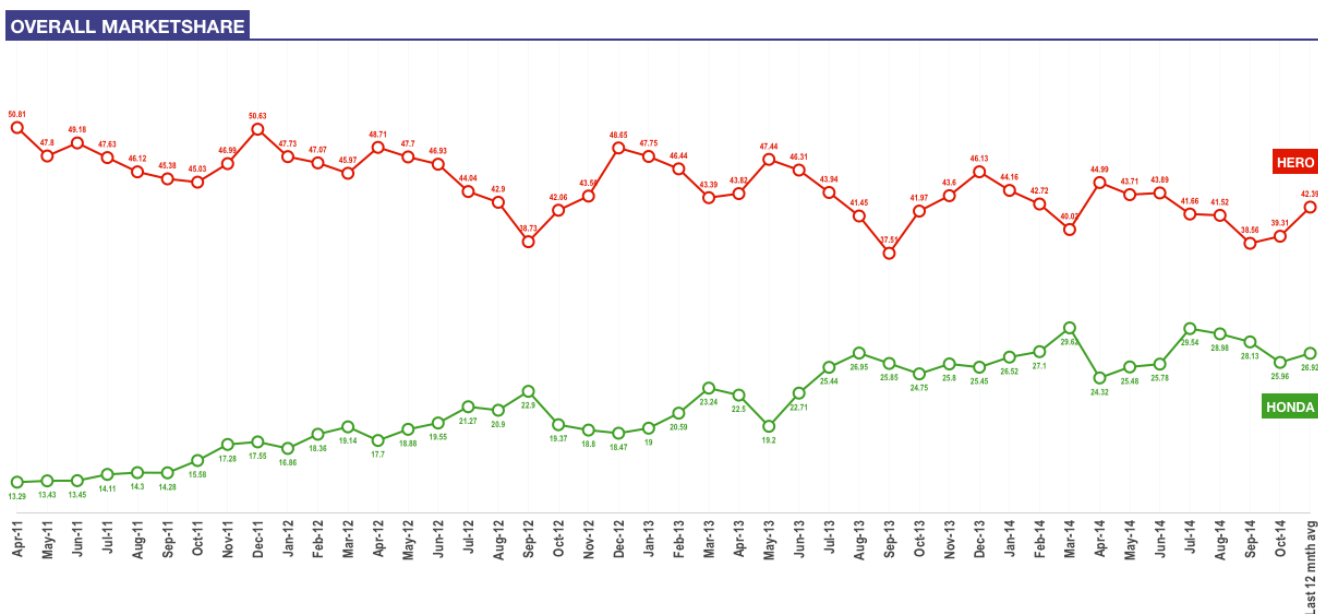
So let's pull out data and see how much Hero and Honda have been able to squeeze each other's balls. While the split happened in December 2010, we looked at data from April 2011

onwards. This is because the SIAM data since April 2011 has a much better granularity, splitting the 90cc-125cc into two segments – 90cc-110cc and 110cc-125cc.

In the Scooters segment, Hero had a 19.98% share of the market while Honda controlled 42.55% of the market. Hero's range comprised of the Pleasure while Honda's range had the Activa and Dio. Since then Hero has added the Maestro, a slightly restyled variant of the Pleasure targeted at boys.

On the other hand, Honda has launched the Aviator, a scooter, which has met with great success at the top-end of the scooter market. The company has also introduced a 125cc version of the Activa this year.

As a result of these activities, Honda has managed to improve its market share significantly. The company's market share in the Scooters market over the last 12 months was 54.54%, a near 12% gain in share. This is huge by any standards, especially considering that Honda already owned nearly half the Scooter market at the start of 2011.



Some of these gains are Hero's loss as it saw its market share decline to 16.98%, average over the last 12 months. This is a

drop of 3% from April 2011.

So in the war after divorce, it is Honda – 1 and Hero – 0.

Looking at the most important segment in the Indian motorcycle market – the 90cc-110cc segment is what makes Hero the formidable force it is. Hero had a 72.32% share of the market in April 2011 while Honda had a miniscule 2.51% share of the market.

Since then Honda has been trying hard in the segment, launching multiple products. The company faced multiple problems initially but has seen significant success since May 2013 post the launch of the Dream series of motorcycles. Over the last 12 months, Honda commanded a 9.08% share of the segment, a 6.57% jump since April 2011.

At the same time, Hero's share of the market is down to 67.86%. This is a 4.46% drop in share. However, Hero is still the 300-pound gorilla in the room and still controls more than two-thirds of the segment.

So for record keeping sake, it is Honda – 2 and Hero – 0. However, Honda is still miles away from challenging Hero in this segment and is missing the critical key to becoming the number one manufacturer in India.

In the 110cc-125cc segment, Hero and Honda were neck-and-neck in April 2011, with Hero controlling 35.41% share and Honda accounting for 32.12% share of the segment.

Since then, it has been a close and keenly fought battle and both manufacturers have gained significant share of the market on account of the other players, particularly TVS and Bajaj. Over the last 12 months, Hero has managed a 41.46% share of the market while Honda has been slightly ahead, accounting for 43.68% share of the segment.

We would call it a close contest and refrain from declaring

anyone a winner in this segment. Let's split points on this one, making Honda – 2.5 and Hero – 0.5 points.

In the 125cc – 150cc segment, Hero had a 17.37% share of the market in April 2011 with the CBZ Xtreme, Hunk and Achiever models. In comparison, Honda controlled 9.46% share of the market with the Unicorn.

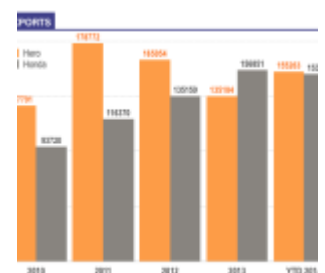
Since then the tables have turned significantly with Honda now controlling 24.24% share of the market while Hero accounts for only 9.38% share of the market. Honda has managed to improve its market share significantly with the launch of the CB Trigger and an improved Unicorn. Meanwhile, Hero has suffered due to stale Achiever and Hunk models. Meanwhile, the much-anticipated Impulse hasn't worked out for Hero.

Continuing with our scoring, it is Honda – 3.5 and Hero – 0.5 points.

Looking at Motorcycles overall, Hero had started with a 57.48% share of the market in April 2011 while Honda controlled 6.98% of the Motorcycle market. Since then, Hero has lost significant market share while Honda has gained from Hero's lost share as well as from other manufacturers.

### Hero's Exports Focus

One of the bone of contentions between Hero and Honda was the latter's restriction on the former when it came to exports. Post the divorce from Honda, Hero now has freedom to set up its own international operations and export actively.



Hero has responded by setting up international operations in Kenya and Peru. In Kenya, widely regarded as an economy ready to grow, Hero is planning an assembly plant as well. However, looking at data (that fetish again), we notice that Hero's exports have experienced a mixed fortune since the separation.

The company saw a spike in exports in 2011 with volumes jumping almost 50% in the period, from 128000 units to 179000 units. Since then, volumes have declined steadily and the company exported less than 136000 units in 2013. Numbers in 2014 are better with the first ten months accounting for exports of more than 155000 units.

[x](#)

For the last 12 months, Hero had a 52.05% share of the Motorcycle market while Honda accounted for 16.41% share of the market. That makes Honda – 4.5 and Hero – 0.5.

Add Scooters to the overall mix and Hero's numbers look even worse. Honda has improved its two-wheeler share from 13.29% in April 2011 to 26.92% average over the last 12 months. In the same time period, Hero has seen its share decline from 50.81% to 42.39%.

Final score: Honda – 5.5 and Hero 0.5.

## **Honda is Winning**

There is no doubt, Honda is winning. The company's strategy is working and the brand is steadily working towards its ambition of becoming the largest two-wheeler manufacturer in India. Over the last 12 months, a mere 15.47% share of the market separated Hero and Honda. Looking at past performance, it should not take Honda more than three years to reel in Hero and overtake it.

However, that may not be the case.

Honda's strategy till date has focused on launching new

products and adding new dealerships. Under such a strategy initial gains are fast.

However, Hero is bound to launch a product onslaught of its own as soon as its new R&D department settles down. A casual chat with a senior Engineering executive at Hero MotoCorp indicated 30-40 new products under development.

Now we are not claiming that all new products would be launched – the diesel scooter doesn't make sense considering that diesel is now deregulated. Also, Hero has a terrible problem of calling a new sticker job a new product.

However, even if a fraction of this number eventually turns into new products, its still a massive headache for Honda.

Any market share gains from now on would be difficult to come by.

## **The Critical Issue**

EMMAAA uses a matrix – Average Motorcycle Engine Displacement Index – a measure of the average engine size of two-wheelers in a market. For the Indian market, the AMEDI has been climbing up over the last five years and EMMAAA forecasts a continuous upward move in the AMEDI over the next 10 years.

In brief, average motorcycle engines are getting bigger. In other words, more Indians are buying bigger engine motorcycles. This is not good news for Hero considering the company makes most of its money from the 90cc-110cc segment.

So Honda's rise to Numero Uno spot depends on the speed at which the AMEDI grows. Fast growth in AMEDI and Honda rises fast; slow increase in AMEDI and Hero has a chance to hit back with its own product onslaught.

Meanwhile, EMMAAA forecasts Honda reaching the number one slot by...[Click here for Answer](#)