Life on the Fringes

LIFE ON THE FRINGES MAY BE A ROMANTIC CONCEPT TO SOME, IN AN ALMOST EXCITING SORT OF WAY. IT REPRESENTS FREEDOM FROM THE CONVENTION, THE CHOICE AND BRAVADO TO BE DIFFERENT. FOR SOME, IT REPRESENTS ENTREPRENEURSHIP, FOR SOME IT IS A LIFE OF GUTS AND GLORY, AND FOR SOME, IT IS WHAT THE TRUE EMBODIMENT OF TAKING A DIFFERENT ROAD MEANS.

But if you are a two-wheeler manufacturer, the fringes often mean a hard life, one in which sales managers are fighting everyday to push wheels out of showrooms.

It is often a fight to defend the minuscule market share that you have and any misstep will see a fall, recovering from which is often very difficult. The fringes also means that you were fighting for a 13.09% share of the Scooters market in 2013, a minuscule share that you further split with three other competitors.

On the Motorcycles front, you were fighting for an even smaller 5.61% share of the market, which you grudgingly split with two other competitors.

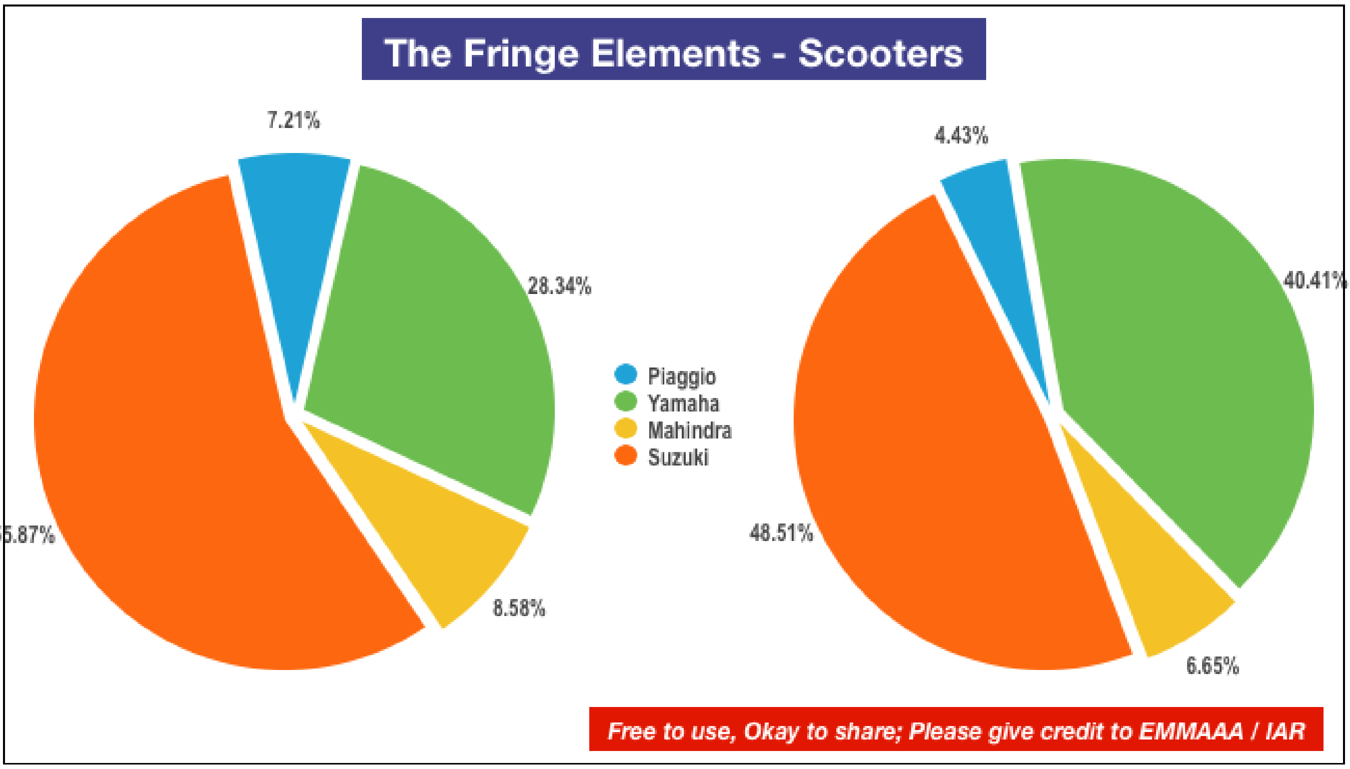
Mind you, by the Fringes, we do to mean niche manufacturers like Harley-Davidson, Triumph, Indian or even Hyosung and Benelli. By niche, we also don’t mean brands like Aprilia and Ducati, which have more news than bikes in India. They also do not include Royal Enfield, a niche manufacturer that caters to a certain segment in the market and sticks to their core competence.

All of them had an awesome year, thank you.

Fringe refers to manufacturers like Yamaha, Piaggio, Suzuki and Mahindra, manufacturers that are mainstream, yet manage to sell little volumes. Some of them were once very popular and are still very popular in parts of the spectrum. Some are new entrants with the notion of being special due to their pedigree while some are just failed experiments in sequence.

Any which way, data indicates that once you take out the top four players – Hero, Honda, Bajaj & TVS – from the Excel sheet, the remaining players have very little part of the market left to share. To further make matters difficult, this small share of the market actually shrank last year, i.e. the Big Four gobbled up some more share of the market.

In the Scooters segment, Piaggio, Suzuki, Yamaha and Mahindra are the Four Horsemen. They are the not so big guys which accounted for 16.09% share of the Scooter market in 2013. In 2014, they had collectively lost 300 basis points of this market to the big guys. Amongst the four, Yamaha came out of 2014 smelling like roses. The Japanese manufacturer had managed to improve its marketshare of the Scooters market to 5.29% in 2014, from 4.56% in 2013.



Everyone else had a 2014 that they would like to forget in a hurry and move on. Suzuki, the biggest of the four, lost the maximum absolute share of the market, declining from 8.99% in 2013 to 6.35% in 2014. Piaggio and Mahindra are already very small and became even more minuscule in 2014. In both cases, market share dipped below 1%.

On the Motorcycles front, the three not-yet-big manufacturers are Yamaha, Suzuki and Mahindra. Out of the three, Yamaha lost market share while Mahindra and Suzuki gained some. Arguably, Mahindra’s gain in market share was essentially its return to the Motorcycle market and Suzuki’s gain was all of two basis points or just above 8500 units.

FRINGES = FRAGILE

The fringe elements are a fragile lot. They lag the market leaders in everything – product portfolio, dealership network, brand image and speed of new product development. For example, Hero MotoCorp and Honda have multiple products in each segment to the extent that even the sales guys would be baffled. Hero has five Splendor variants, including one wearing the Cafe Racer look. The company further has three Passions, two Glamours, three bikes below the Splendor and more than half a dozen above the Glamour. Arguably, some of this stuff is sheer attack on the customer's intelligence with mere decals separating models. However, essentially, there is something for everyone at a Hero showroom.

Rival Honda doesn't do badly either and has eleven mass-market models in its showroom. We have a feeling that a handful more would be added soon to counter Hero's hilariously wider product range.
And then there is Bajaj of the six Discovers fame. The company still has three Discovers, a Platina, five Pulsars, and a handful of KTMs in its range. We can bet that some more Pulsars and other assorted bikes would be added this year as well.

In comparison, Mahindra has two bikes and Suzuki has three bikes in all inside its showrooms. Yamaha is an anomaly – the width of its range (14 products in the mass market segments) can outmatch the big guys easily. However, the customer identifies the brand with performance and shuns its lower end motorcycles like the Crux.

Mahindra does not have a history in the Indian market and is essentially setting up things from scratch. Suzuki has history globally and in India as well, however, its product range does nothing to associate with the Hayabusa history.

NEW PRODUCT DEVELOPMENT LETHARGY

Market leaders are differentiated by their nimbleness. Hero, Honda, Bajaj and TVS are all planning multiple product launches this year. Actually, they would be launching multiple new products every year in the forecast future (source – EMMAAA's ten-year, model level forecast of the Indian market).

In comparison, Suzuki, Mahindra and Yamaha have far lower number of new models planned. This lowers the freshness of the product portfolio, limits the width of the product range and stunts the growth in volumes. The limited product portfolio is also a deterrent to attracting new dealers to enlarge the dealer networks of the fringe brands.

IN THE END, IT BECOMES A CHICKEN-AND-EGG STORY.

New product development for Suzuki and Yamaha is also hampered because of linking everything to the brand's global portfolio. So Suzuki has to often look at what the HQ is planning to sell in emerging markets.

In contrast, Honda, Bajaj and TVS have self sufficient, enormous R&D operations in India, which keep churning out new products. Automotive journalists estimate Bajaj's new product development timing at 18-21 months and that for TVS at 25-29 months. With multiple new product development projects running side by side, they are able to deliver new bikes into showrooms every few months, keeping the portfolio warm.

Mahindra has realised the importance and is spending a huge amount on new product development. The company has invested INR 1.0 billion in setting up a R&D centre dedicated to two wheeler development for the company. However, that we believe is just the starting point. The much delayed launch of the Mojo indicates that the company's product development is yet to get up to speed.

It is also an issue that Research and Development is more about maturity than throwing in money. A few products help give the engineers and designers valuable experience that money cannot replace in a shorter period of time.

In a nutshell, the path towards having multiple new products roll out of your engineering centre is a long one and one where a short-cut is not viable.

THE DISADVANTAGES OF FRINGE

When you are a small player, it becomes tough to negotiate as hard with suppliers as they would do with a Hero or Honda. Also, unlike a Hero or Bajaj, it is also difficult to develop a close-knit supplier group to support your manufacturing operations. As a result, you are unlikely to get the best pricing from suppliers.

To preserve margins and profitability, manufacturers end up using the Not-the-best quality. This results in the machines having a shorter life than that from a Hero or Honda.

Eventually, customers stay away due to negative word of mouth.

Volumes stay low and the vicious circle is complete.

VICIOUS CYCLE REPEATS…

Things are not good at the front end too. Unlike larger players, the volumes per showroom are much lower. However, the costs of setting up the showroom and service centre are almost the same as that for a big brand. As a result, finding small entrepreneurs to help expand your sales & service network becomes tough. Many times you entice them with an increased commission on every unit sold, sacrificing your own margins in the process.

TRANSFORMING FRINGE TO NICHE

At the start of this analysis, we noted that how niche manufacturers like Royal Enfield and Harley-Davidson were doing just fine. If we look at the group of fringe manufacturers that we identified, we do notice that some of them are doing well in certain niches. Mahindra may have a future in scooters, ditto Suzuki. Yamaha is doing exceedingly well in the 150cc motorcycle segment and has started doing very well in scooters as well.

And then there is Piaggio which would focus on selling ~~overpriced~~ luxury scooters with a soul. Start selling merchandise Piaggio and work on building the brand if you want your strategy to succeed.

Fringe manufacturers are struggling in other parts of the product spectrum.

Perhaps the answer lies in focussing on the core and not spreading yourself thin. This would allow these fringe players to develop a healthier brand identity and enable a better marketshare in one segment. At least in that segment, negotiations with suppliers would be favourable.

The fringe manufacturers don’t have to look back far in to history to see the problems with spreading yourself thin. Kinetic was a major player in the Mopeds and Scooters segment. However, lured by the heady growth in motorcycle volumes at the start of the century, the company decided to take the plunge and jumped into the segment through tech joint venture with Hyosung. Kinetic also did some shoddy jobs of reverse engineering the Hero CD 100 / Honda Cub with the Challenger and Boss. Multiple product disasters followed. As a result of this massacre, Kinetic failed to invest and consolidate its grip in the Scooters segment.

They soon realised that they have ketchup on their shirts, sold the business to Mahindra (wise sell, unwise buy) and focussed on the components business.

In a similar way, some of today’s fringe players face extinction if they walk down the same path.