

Hero honda success

People



'Motorcycles are a hit in rural areas' Monday, April 15, 2002 Many continue to be surprised at the ability of India 's 2-wheeler segment to buck the present recessionary trend in the economy. What, they ask themselves, accounts for such resilience: competitive pricing? Quality? Technology? Or, is it ready availability? Mr. Brijmohan Lall Munjal, chairman, Hero Group of Companies, addresses some of these issues in an interview with Soumya Kanti Mitra. What makes the 2-wheeler segment so impervious to demand fluctuations? A 2-wheeler is the most necessary consumer durable good owned by lower Middle, and middle class, households.

There is multiple ownership of this product in such households. Firstly, there is an income effect that influences 2-wheeler demand. Per Capita GDP growth of 3.7 per cent per annum has been pushing households up into higher income brackets. The push effect is more in lower and middle-income groups - hence the increased demand. It also links up with the higher contributions of the service sector to GDP; the income impact of that has been greater on lower income households. A second major reason is the inadequate public transport. The percentage of people who use public transport has fallen from 85 per cent to 75.

Entry-level transport options like two- and three-wheelers have mostly filled this gap. They have also become a sort of necessity and thus do not show heavy fluctuations in demand. Increased demand for two-wheelers from households has also led financial institutions to increase credit in a sustained way in the last three or four years. That too has imparted stability to this item, compared to others. A good proportion of sales owes to replacement demand. Are motorcycles gaining an edge over scooters? What is your

experience as a market leader? There are few fresh issues with scooters.

Firstly, the technology was dated.

Secondly, most were two-stroke vehicles, less fuel-efficient compared to motorcycles. The only advantage was that one could carry along a spare tyre. But motor-cycles have been preferred in rural areas for better ground clearance, larger wheels and better suspension. They can easily be used on rough roads. Scooters are preferred in urban segments. New generation vehicles with four-stroke engines may soon hit the market and that will boost the sagging scooter market. For the last two years scooters sales have been less than a million per annum. Are you, and others in the industry, planning changes in output and investment?

Considering the developments in household incomes and transport requirements we believe that the average annual growth of 2-wheelers for the next three years should be of around 8-10 per cent. There is over-capacity, but investments may be made in individual instances. The demand for motorcycles, however, is expected to grow by 15-18 per cent. That should attract investments. Abroad, certain top-end models in BMW's, Honda's or Ducati's ranges have actually become 'lifestyle' statements for executives. Do you see anything like that happening in India ? The next 2-3 years may see a small beginning with the introduction of high-end motorcycles.

But the concept is too early for India . We do not have nice roads where the customer can ride such high-end bikes. With affordability not being widespread, who will manufacture to cater to such small volumes? We may

see some inroads after imports get fully liberalised, but I think it is early days for that. Are exports from the sector under siege owing to the international slowdown? That could be a major factor. Also, there is over capacity in most countries in the 2- wheeler industry. Markets in Latin America and Africa are impacted, while intra- Asian trade is very competitive.