

Analysis of indian tyre industry



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The Tyre Industry in India is primarily a domestic industry which has an annual turnover of around Rs 30, 000Cr. The industry is majorly dependent on Automobile Industry for its growth prospects. Also, replacement market gives a major share of revenues. The industry has now started focussing more on the exports.

The tyre industry has almost 40 manufacturers but is dominated by the Top 10 manufacturers. Also it could be broadly divided into 6 categories based on the different auto segments. A category wise break-up and the top ten players have been shown in the figure below.

Different categories of tyres in tyre industry and top players

Two Wheelers, Trucks and Buses and Passenger Cars are the three major sectors on the basis of volumes consumed.

Categorywise Market Segmentation

The market has been segmented by product category in the following manner.

Tractors

LCV

Truck & Bus

Passenger cars

Two Wheelers

Two Wheelers is the biggest market segment followed by Passenger cars and Truck & Bus. Although Tractors and LCV are quite old market segments but they are not very big in size. OTR (Off The Road) has been discovered as the new niche segment.

It is very interesting to note that there are many manufacturers who are in all the product categories but yet there is clear demarcation in the product line. Only MRF manages to perform equally well in the three major segments.

Leading Manufacturers

Although the industry enjoys involvement of 40 players, 90-95 of the market shares are enjoyed by the top 10 manufacturers. The introductory details of these major players have been mentioned below.

MRF India Ltd. –

MRF. jpg

MRF started as a toy balloon making factory in 1946. Since then the company has continuously adapted to changing market needs and has emerged as the overall market leader across the three major segments. When it comes to top-of-mind brand recall, MRF beats the rest of the competition hands down. MRF has for long concentrated on aggressive brand promotion. Sponsoring and promoting events along with promoting sports celebrities have been a major part of marketing strategies.

It also involves itself in a range of other activities via its subsidiaries.

FunskoolIndia, is a Joint venture between Hasbro and MRF, is a major toy

manufacturing company in the country. The expertise of MRF with the rubber industry comes handy in this venture.

MF Pretreads offers world class precured tyre retreading service. Also MRF Musclex is involved in making conveyor belts. It is presently under the leadership of Vinoo Mammen, son of the late K. M. Mammen Mappillai.

MRF seems to rule the Indian Tyre Industry with a very strong presence across all the categories.

Apollo Tyres Ltd. –

apollo. jpg

Apollo Tyres was established in the year 1976 when the License system was very strong in India. Strategic thinking is known to be Apollo's best trump card when marketing strategy is discussed. It does a skilful analysis of the trends and how the market size is affected by them. The company is also known for excellent product and service planning and distribution networks.

Apollo has been the first company to launch branded retail tyre outlets for trucks. Also they are the first to introduce radial tyres in the Farm Equipments category. The company has reached new heights and is presently the 15th largest Tyre manufacturer in the world under the leadership of Onkar S. Kanwar.

Apollo has increased its marketing and promotion budgets by 50 pc and has completely rebranded the product.

JK Tyre and Industries Ltd. –

JK. jpg

JK Tyres is a flagship company of the renowned J K Group which is run by the renowned Singhanian Family. It is the market leader in radial tyres in India. Also the firm basically focuses on the passenger car segment and is the market leader in that particular segment.

The group has several other industries as JK Lakshmi cement, JK Technosoft, JK Papers etc.

The company's customer base covers virtually the entire Original Equipment Manufacturers in India together with Replacement Market for four wheeler vehicles, Defence and State Transport Units. It has a worldwide customer base in 45 countries across all the six continents.

The firm's marketing strategies usually involve organizing sporting events like the J K Tyre National Racing Championship and other formula 1 events.

CEAT Ltd.-

ceat. jpg

Ceat Ltd , a part of RPG group, is the second largest tyre manufacturer of India. The RPG group took over the Indian Operations of this Italian firm in 1982. It is a very active player in the TRUCK & BUS and Passenger Car categories.

They have a robust national network consisting of 34 regional offices and over 3, 500 dealers among which approximately 100 are exclusive dealers

running the CEAT Shoppe outlets for passenger cars segments and 96 exclusive dealers running the CEAT HUBs for Truck & Bus Segments. The company has their presence in 110 countries.

CEAT has a very well recognized tagline ‘Born Tough’ is the prime sponsor of the CEAT Cricket ratings which is one of the most important feather in the company’s hat. The company has come up with a very innovative marketing strategy of ‘Road is full of idiots’ which has gained massive social attention.

Balkrishna Industries Ltd. –

BKT. jpg

It is a conglomerate with diversified products from Paper to Tyres. It is the fifth ranked manufacturer in the Indian Tyre Industry. Also, the company has discovered a niche market segment of Off Highway Tyres (OHT). The company is a leader in this segment and plans to diversify its product line in the near future.

The company operates mainly in the business segment of tires. They focus on the production of range of off-highway tires that includes agricultural, industry, material handling, forestry, lawn and garden, construction and earth moving tires. The company has a worldwide distribution network ensuring extensive reach and penetration.

Market Shares

The tyre industry in India is a highly competitive sector with a very cut throat competition among the leading players. The table below shows the details of the market shares as of 2010-11.

Top players in different categories of tyre industry

The above table clearly indicates that the T&B segment is highly competitive with JK Tyre , MRF and Apollo as the lead players. Also in the Passenger car segment, Apollo and MRF enjoy an equal market share followed by Bridgestone.

Also the revenue and Sales Figures have been tabulated in the below table.

Historical performance of tyre industry

Business Models – The companies involved in the tyre industry indulge into fierce competition with each other for better market share and profits. But still some of the manufacturers manage to have a unique business model which strengthens its market presence.

JK Tyre & Industries caters majorly to Passenger Car and Truck & Bus segment whereas Balkrishna Industries have discovered and mastered a niche market segment of OTR or Off the Road tyres for themselves. The company focuses in manufacturing and supplying tyres for the earthmoving instruments.

Revenue and Sales – MRF seems to be the market leader in the Indian Tyre Industry across all the segments. Although the company is followed by Apollo Tyres and JK Tyres, it enjoys a massive difference in the figures when compared to its nearest competitors.

Balkrishna Industries seems to be a rising star in the Indian Tyre Industry. The company has recorded a massive growth rate of 27.87 % and a 6 year profit margin average of 10.55 %.

The industry seems to be less crowded at the top but the competition among the participating firms seems fierce.

Industry Operations

The operations of the tyre industry are largely Raw Material dependent.

Working of tyre industry flow chart

Input

The industry is highly raw material (RM) intensive. Raw material costs accounts for 65-70% of the total production cost of tyres. Natural rubber constitutes is the major raw material used by the industry and accounts for around 43% of the total cost.

The other raw materials consumed by the tyre industry are crude derivatives such as synthetic rubber (SBR – styrene butadiene rubber, PBR – polybutadiene rubber), nylon tyre cord fabric, carbon black and rubber chemicals. As the raw materials are dependent on the crude prices, their costs are very unpredictable. This makes the palling and implementation of strategies difficult.

End Users

Based on the customer segments, the tyre market can be broadly divided into 2 categories – Original Equipment Manufacturers (OEM), and Replacement Market.

1) Original Equipment Manufacturers – This includes automobile manufacturers like Hyundai, Maruti Suzuki, Hero etc. The demand from the OEM market fluctuates directly in line with end-use demand for the automobile/construction equipment segment; it is thus prone to a high degree of cyclical. The total tyre sales to OEMs are on an average 40-45% of the total sales.

2) Replacement Market – Customers who replace old tyres of their vehicles constitute to the Replacement Market. Replacement demand for tyres depends on on-road vehicle population, road conditions, vehicle scrappage rules, overloading norms, retreading intensity and miles driven. It is less cyclical than OEM demand and is generally a higher-margin business for tyre manufacturers. On an average, replacement market accounts for 45-50% of the total sales.

Although exports contribute very less to the revenue but with each passing day , companies are focussing more and more on exports. MRF and JK Tyres are leaders in exports from India.

Analysis of the Industry

The five force analysis of the industry reveals the following facts.

Bargaining power of Buyers – The Industry has more than 40 manufacturers which gives the buyers a wide range of choice. Also the market is fragmented so Manufacturer penetration is quite less. This gives high bargaining powers to the buyers.

Bargaining power of Suppliers – As the industry is highly Raw Material driven where the main raw material is natural rubber. The production of rubber doesn't increase proportional to its demand and hence the bargaining power of suppliers is very high.

Competitive Rivalry – While the number of players in the industry is 40, the market share seems to be quite concentrated at the hands of the top 10 players. Also in each product category like two wheeler, T&B etc the market share of lead players approximates to 80%.

Availability of Substitutes – The major concern for the Indian manufacturers is the price of the tyres in the overseas market like China. The price of rubber is the driving factor for price and when it increases in the domestic market, the Indian manufacturers are bound to increase the price. The automobile manufacturers then may switch to the option of importing tyres from international market.

Entry Barriers – The industry is highly capital intensive and margins are very low. This makes it difficult to sustain for new entrants. Automobile makers although resort to backward integration. TVS Srichakra is a prime example of backward integration by TVS motors.

Marketing Strategies

The tyre industry has a unique and balanced mix of both B2B and B2C market segments. OEM represents the B2B segment where the customers are the automobile manufacturers. This segment does not require detailed marketing strategies. The replacement category on the other hand is more of B2C segment and hence requires extensive marketing strategies.

Marketing strategies and efforts have been summarized below:-

CEAT after 12 long years introduced a fresh new marketing campaign ' BE IDIOT PROOF'. The advertisement very nicely showcased the product feature (grip) as a solution to a biker's problem and establishes the product as the most relevant tyre brand for bikers.

ceat-tyres. jpg

CEAT plans to increase its presence in the Bike segment which is one of the biggest segment for the Tyre Industry.