

Harley davidson and investment in india economics essay



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The start which looked like as a financial crisis soon changed into a intense recession. This had a striking impact on the real economy. This effect was seen on almost all other economies and the market. GDP was expected to fall by about 2. 5% or even more than that by the year 2009. About 4% of economic contraction will be observed in developed and about 6% will be observed in transition economies. Just about 1. 3% of growth rate will be observed by the developing economies due to an intense deceleration.

(Appendix 1) (UNCTAD Trade and Development Report 2009)

Analyzing a serious picture based on investments across the borders, UNCTAD had predicted a slowdown of FDI(Foreign Direct Investment) by about 30% in 2009 and recover partially during this year.

The factors which drive the expansion to a new country are the FDI in the host country, the type of industry which is to be expanded and the most important the gain or the profit expected in the future with the expansion.

2. Executive Summary

Harley-Davidson has a history of uniting people with great passion and authentically all over the world. Along with the unity there is an abounding and endless personal experience. It is only because of this impression it creates on the minds of the people ranks it to be one of the biggest brands in the world. Since the time it was originated in 1903, Harley-Davidson has come to epitomize the features of uniqueness, freedom and zeal for adventure. The Company's motorcycle products include thirty-four Harley-Davidson models, which include Dark Custom models which are also a part of inheritance of stripped and chopped custom motorcycles, and sport

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motorcycles which are the part of the subsidiaries of Buell and MV Agusta. Harley Davidson does not have dealers in more than 70 countries but also formed a group named as Harley Owner group which has more than one million members all over the world. The motorcycles contribute to 77% of income, spare parts and accessories to about 15%, and Motor wear kit to 6% which help them to provide an eventual riding experience . Harley-Davidson Financial Services, Inc. offers financial and insurance facilities. Harley-Davidson concentrates on a long term brand power coupled with effective functioning and monetary strength. Harley Davidson believe to attract new customers as well as enhance customer satisfaction and broaden the ways of providing best services to the existing customers and thus leave an impression to be the best motorcycle company around the world.

The proposal discusses investments trends, analysis of the target country - different options for business set up, local environment and industrial study, suggestion of market entry and ownership strategy.

3. Global Investment Outlook

FDI (Foreign Direct Investment) inflows are estimated to have descended by 21% in the year 2008 to a predicted \$1. 4 trillion, which will further fall down in the year 2009 as forecasted by UNCTAD in their new releases.

The above chart gives a detailed analysis about the ten best the ten most desirable countries for FDI for the year 2008-2010, released by world investment prospect.

India has always been a favoured destination for FDI investments, rate of growth and the budding market as compared to the other global economies. The main reason for such interest has been the labour force as well as the competitive market thus being the valuable resources of the country. The above graph gives enough evidence to favour opportunities for Harley Davidson to plan, develop and execute their investments in a timely approach.

4. Analysis of the Target Country: India

Overview

India possesses a developed and technological manpower worth 20 million. India's domestic market comprises 300 million people belong to the middle class sector having a considerable purchasing power along with some people nearly 800 million population whose purchasing power is increasing slowly and gradually. Being an energetic democratic system which includes a huge democracy set-up coupled with a sophisticated legal structure which also includes a negotiable and a self governing judiciary arrangement, it possesses of a big arrangement of banks, monetary institutes and planned investments and funds.

India has a big set up of industrial and scientific institutions to provide maximum standards recognised internationally which have helped to develop effective human resource management India has also had a fortunate evidence of enviable record of respecting its international economic duties and responsibilities. English is also very well developed in

India and has thus been the business language. Foreign industries also
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favour the small scale industries which build up a solid foundation for their planned alliances. Location has also been the reason for its development and its increased foreign investment over the period of years thus enhancing a healthy environment for support of the infrastructural facilities.

India has also come up as the biggest ever increasing capital inventor, which was only possible due to floating stock market and high salaries. Many Indian industries were able to overcome the last year's net profit thus increasing them in a matter of six months which reflected an accelerated growth of the company's earning. A remarkable 44% present in the top 100 of the Fortune 500 companies are located in India. It would just be a matter of time that after such increased development and growth in the services and the manufacturing sector, India will soon reach the popular 10% GDP figure.

PEST Analysis

Political

India's political atmosphere has changed rapidly during the past two years. Many companies manufacturing motorcycles have been a vital part of India's market but still were affected by such changes and found it difficult to overcome them. The changes which were made in the laws and regulations by the government bodies tried their best to restore the two wheeler business, but the response was far less than expected. The companies proved the experts wrong in their predictions of a decline by reporting the losses to be low thus by cutting the costs. The cautious nature of the consumers in their spending increased greatly and thus had an effect on the performance of the manufacturing companies. Environmental rules and <https://assignbuster.com/harley-davidson-and-investment-in-india-economics-essay/>

regulations were considered to be issues of discussion for the companies which were constantly under pressure from the groups all over the world. These groups made it a point to the companies to claim responsibility for their old products and thus the companies became more aware of such issues and also the risk involved with the opportunities of state and the environmental issues and took positive steps against them.

Economic

The past years has led India to a fast paced growth in the business related industries. The major factor for such a development has solely been the increasing purchasing power capacity even for an individual belonging to the middle class. The market has changed in a dynamic manner. The niche market has been favoured more by the consumers with respect to the bike industries.

1 <http://ezinearticles.com/? Advantages-of-Investing-in-India&id= 937351>

Social

The use and the buying of bikes is greatly increased due to the percentage of working population and youth in India which favour them. The development of various innovations and technology has encouraged people to increase their interest, and demand more classy, technically advanced as well as modish bikes. Moreover, the youth have time limitations which makes them think to buy the fast and powerful bikes keeping in mind the fuel economy thus reducing the time spent in traffic especially on the Indian roads.

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Technology Change

Technology in India has changed considerably at a rapid rate thus enabling the motorbike companies to provide highly advanced products leaving the customer fully satisfied. This change has led the companies to introduce new product lines with advanced features. The company thus adapted the new trend of the market to a fair extent as the demand for the old technology or motorbikes have become far outdated. Niche bikes are mainly preferred. The latest add-ons have been with the neon lights, tubeless tyres, the metal coating and most importantly the fuel efficiency in the motorbikes which are the result of technological innovations.

Infrastructure

As the income of the people have increased, purchasing power of India has also increased, which contributes to the increase of infrastructural facilities in India. Every city in India is large or a rural area-contributes a fixed amount for their infrastructure. Majority of the shares are in the possession of the transport department . To maintain a smooth functioning some steps are taken by the Indian Government which mainly include metro railways, the recent development of the roads consisting of four lanes etc. which enable rapid transport facilities. Over head bridges, bypasses also have reduced the problem of traffic; with developed signalling system make the way clear for the luxury cars, as well as niche bikes.

Business Culture

To function in an efficient manner, Harley Davidson should have the basic understanding of Indian culture and the kind of influence it would have on its firm. The success of the firm would clearly rest on the fact, of avoiding any type of miscommunication and the cross cultural conflicts.

Corporate Culture

India

World Average

Hofstede Scores

PDI= 77, IDV= 48, UAI= 40, MAS= 56, LTO= 61

PDI= 56.5, UAI= 65, MAS= 51, LTO= 48

Attire

Conservative for women's, Formal for men's.

Conversation

India has more than 14 major languages along with about 300 minor languages. English and Hindi being the official languages, where English is mostly used for business communication, education and politics.

Attitude

Whistling is impolite and winking may be interpreted as either an insult or a sexual proposition.

Table 1: Indian Business Culture.

(Source: <http://www.cyborlink.com/besite/india.htm>)

Where, PDI= Power Distance Index; IDV= Individualism; UAI= Uncertainty Avoidance Index; MAS= Masculinity; LTO= Long-Term Orientation.

With this analysis, India clearly suggests a sturdy, solid and an encouraging outlook for an investment. The PEST analysis and the economic wellbeing truly will inspire Harley Davidson for an investment in India.

5. Growth of Two Wheeler Industry in India

Sales in India with respect to two wheeler companies have broken all records and the annual sales are expected to grow more passing the 10 million mark mostly by the year 2010. The minimal access of , motorbikes in the country roughly about thirty one motorbikes every 1000 citizens (2004) makes it very much possible for a growth in this segment. The sales have rocketed to a high of 15% from an initial value of 6.6 million in 2004/2005 to 7.57 million in 2005/06. The optimistic growth rate of India to about 8% per annum will further increase the development of a two-wheeler market in India.

The Product Life-Cycle theory advocates the move of high-tech product manufacturing to a country where demand is increasing and production cost is low (Source: Hill 2009, Pg 183-184). Initially, more advanced and developed products were mainly initiated in developed countries like Japan, US, UK etc. But the ever increasing demand from the Asian markets led the producers to move their production to Europe and Asia. Another important <https://assignbuster.com/harley-davidson-and-investment-in-india-economics-essay/>

aspect of this decision has mainly been the low cost labour which enabled to reduce the cost of production, and thus there was a shift of the firms to cheaper locations like China and India more recently.

Firm Strategy, Structure & Rivalry

Domestic as well as multi-national firms explains an aggressive industry

Factor Endowments

India's cheap and skilled workforce is a perfect base for large low cost production & bigger investments from the firms for greater volume expansion, R&D etc.

Related & Supporting Industries

Strong industrial groups to promote the industry's interests. Recognized components industry supports OEMs.

Demand Conditions

High demanding consumers, increase in per capita income resulted in fast growth and change in demand patterns.

Government

Broad minded policy government, 100% FDI investment approval. Duties on raw materials & input lessened from 20% – 15%

Porter's Diamond (For Two-Wheeler Industry) would be of great help as the main factors in developing the two wheeler industry in India can be illustrated which includes the nation's competitive advantage in an industry.

Figure1.

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5. 1 Critical Success Factors

The important success aspects of investment with a view of high satisfaction for the customers for a two-wheeler industry are evaluated against the advantages present in India in Table 2.

Important Success Factor

Advantage in India

Start-up Capital

The finance sector like banks and the funds for global investments are stable enough for a good future in India.

Political and Economic Stability

Broad minded policy government, 100% FDI investment approval. Duties on raw materials & input lessened from 20% - 15%

Availability of Skilled Labor

India possesses a developed and technological manpower worth 20 million.

Infrastructure Facilities

Investment decisions for the betterment of infrastructural facilities are undertaken by Government of India.

Market

Investor's confidence is greatly boosted by the presence of competitors like Honda and Yamaha.

Table 2: Important success aspects for two wheeler investment & India Advantage.

With respect to the above given factors , Harley Davidson will have to be quick to respond to customer needs and satisfaction, quick adaptation to the nature of Indian market, produce high quality products, as well as maintain a long term relationships in order to invest and also have a strong hold in the Indian market.

5. 2 SWOT Analysis:

SWOT analysis is an effective way for Harley Davidson in preparing its strategy which would further analyze the strength and chances to deal with its present limitations and curb future threats.

Strengths

The biggest strengths that the company has are its brand name and hence make them stand out in the competition they face.

The striking feature is with the fact that Harley Davidson invests a marginal amount in advertisements since it is a recognised brand in two wheeler industry. The company mainly favours mouth advertising which on certain occasions can have a negative impression but still has bought in profits for the firm.

Harley Davidson's has got a strong reputation to provide tough, better and durable motorcycles. It is because of this that the company enjoys customer loyalty and thus once the consumer buys a Harley, he gets hooked to the brand and a little possibility to switch to another competing brand is left open.

These outcomes are only due to the high level of customer satisfaction as well as the kind of assistance to owners through its association of dealerships and H. O. G. Harley Owners Group. At sport events or rallies by H. O. G., the management of Harley Davidson interact with owners to know their experiences as well as find better ways to improve their products.

Harley-Davidson also provides a wide range of parts and accessories to the owners to customize their bikes.

Innovative spirit has also been one of the greatest strength.

Harley-Davidson has put technology to its full use by providing a quick, superior, and professional service to the people attached to the company.

Weaknesses

Any company cannot be 100% efficient and can thus have their own weaknesses. Harley Davidson has always faced the challenge of demographics of purchasers.

During the 1980's Harley Davidson were on the verge of bankruptcy because of the increased competition from the Japanese companies which produced

high-class but low priced products. The main reasons had been the weak managerial efficiency of Harley Davidson.

The limited product line has also been a weakness since they are not competitive enough to other brands. But they are soon to overcome this by introduction of sports range motorbikes of Buell and Agusta

Opportunities

The international heavy weight market is increasing and is now bigger as compared to the U. S. heavyweight market.

Harley Davidson bikes are in great demand in the European market which is comparatively highest in the world thus being the only biggest motorbike market in the world.

Interest rates are at a very low rate.

Young riders and also women are now showing interest in motorbikes.

Alliances can be possible by automobile companies in near future. eg Ford.

Industry registrations are on an increase for the national heavyweight motorcycles.

The market share has increased in the European and the Asian market over the period of three years.

India has a more demand for the motorbikes.

Customers value quality parts

Threats

Harley's incomplete capability restraints had resulted in a caused a lack of supply and thus contributed to a loss in the national share in the market in the modern period.

The buying age of a Harley is at a average of 42yrs old and increasing.

The noise standards in India are stricter as compared to the Environmental Protection Industries in the US.

Some of its competitors have a wide range of financial and marketing resources and are more diverse.

Protection laws related to the environment.

Change in the preference and tastes of the motorcycle buyers.

Loyalty to the customers in the Asian market.

Costs could increase as a result of international importing.

SWOT analysis has shown that Harley Davidson's strengths to its chances go together and has assumed that it is obligatory to execute strategies which capitalize on its strengths and uses the chances to expand their market share. The strategy to enter into Indian motorcycle market by producing quality products will help them to boost up their profits. SWOT analysis should lead to " Call to Action" where strategies are converted by making weaknesses as strengths and threat to opportunities. Internal factors can be

controlled but for external factors to work out well the strategies should be implemented properly.

6. Foreign Investment Strategy

The success of India in the automobile sector lies with the availability of highly developed technology, high gains through low cost of production and skilful manpower. Besides these, India has also has a powerful and proficient Auto Ancillary Industry which include testing and R&D centres for the automobile industry. It is just because of these reasons, India ranks third in production of three wheelers and second in production of two wheelers with respect to the automobile sector in India.

Better chances of FDI in the Automobile Sector in India exist in

Establishment of well developed Engineering centres.

Two Wheeler Segment.

Export of the products.

Establishing R & D Centres.

Important Aspects of FDI in Automobile Industry

Since there is no Government intervention, FDI up to 100% can easily be given a permit which proves to be a direct route to the automobile sector, which has led to a yield of \$12 billion US with respect to the automobile sector and \$3 billion US from the auto parts industry in India.

Even the production of automobiles and its parts are allowed a 100 percent FDI in the automatic route.

In India the automobile sector, is not a part of the licensed agreement.

As a result of this the components are allowed and encouraged to be traded in freely.

6. 1 Mode of Entry

FDI is favoured over exporting as an entry strategy when transportation cost or trade barriers make exporting unattractive. Also the firm will favour FDI over licensing or franchising when it wishes to maintain control over its technological know-how or over its operations and business strategy, or when the firm's capabilities are simply not amenable to licensing as explained by Internalization theory. (Source: Hill 2009, pg 250-251). This theory can explain investment planning for Harley Davidson in India.

With its strategic position, India directly is in contact with the entire Asian as well as the Middle East market. If this was not enough factors like inexpensive labour and rapid developing infrastructural facilities are very helpful. To make an effective investment, Harley Davidson should commence on their FDI to gain an advantage from local conditions and like regional companies of India.

Two ideal modes for FDI in India those are suitable for a two wheeler industry:

Strategic Alliance or Joint Venture (JV) Harley Davidson can make a deal with a local two wheeler firm be it Bajaj or Hero Honda which are already established in India. They can achieve competitive advantage which could be done by analyzing and sharing risks and the cost of production, and can easily penetrate the Indian market, sharing technology know-how etc. but JV is not preferred because of the following reasons:

Management styles in both the firm can vary from each other.

Contradiction of interests between investors, if target and objectives change.

Such planned acquisition can give a good start in investing in a local firm but can eventually it could be tough to retrieve the monetary capability in the long run.

Wholly Owned Subsidiary (WOS) “ Greenfield” investments would be an ideal mode of entry for Harley Davidson as mentioned below in table 3.

Factors

Benefits to Business for a WOS

Political approval

Greenfield investments are favoured by Indian Government which includes regulatory and investing policies.

Control and Rights

The firm can be in a total control without any risk as there will be no interdependence on local firm as well as no profit sharing.

Cultural Factors

The youth of India are more in to American trends and hence both cultures are near to same, so cultural adaptation would not be a big issue.

Imminence to customers

Location based with nearness to the customers will prove to be an advantage.

Technology and Innovations

Since Harley Davidson itself is a big brand it will have an advantage over customers as far as the quality of the products and the technology is concerned.

Table 3: Harley Davidson: Advantage as a Wholly Owned Subsidiary.

However, Harley Davidson should take an advantage of its financial and organizational power of managing cross-border projects to overcome the difficulties concerned with excessive costs, local rivalry and risks related with establishing a WOS.

6. 2 Time and Scale of Entry

Since there is a lot of scope for a two wheeler market in India many MNC's have started their operations in India. With almost all key brands entering

Indian market, it would be a wise decision for Harley Davidson to start operating in Indian market as soon as possible to hold up other international firms preparing to enter the market. This will guarantee them a strong hold on the market when the demand further increases.

Scale of entry should be considerable to realise benefit which will be obtained from economies of scale. At first, Harley Davidson will find it difficult to enhance the product lines and produce a profits stream to prevent elongated gap between commercialisation and expansion using its WOS.

7. Core Strategy

The strategy or tactics depends upon how a firm is able to meet its goals by uncovering target markets, verify the competitor's presence, and attain a competitive advantage and locate itself in the market place.

Bartlett & Ghoshal argued that competitive conditions in today's environment are so intense that firms can survive in the global market only if they exploit experience based cost and location economies, transfer their core-competencies within the firm and address pressures for local responsiveness (Source: Hill 2009, Pg 438).

Due to the presence of major firms like Hero Honda, Yamaha etc. two wheeler companies are bound to go through continuous stress of reducing their costs. Also, variations in technology practises and government regulations across nations means " ONE SIZE NEED NOT FIT ALL", so firms have to highly responsive to local needs. Thus transnational strategy

(Source: Hill 2009, Pg 428) is anticipated for Harley Davidson illustrated in Figure 2.

Figure 2. Harley Dvidson following a Transnational Strategy.

The arrangement and control systems must be connected with the type of strategy they have chosen to function properly in India. Apparently, there have been price fluctuations in the Indian market. To cope with this fluctuation Harley Davidson should concentrate on the regional responsiveness. This can be attained by implementing a strategy to differentiate in its product line, produce new innovative superior quality products and maintain a sufficient inventory. Competitive pricing and concentration on buyer's contentment will be the major factors if Harley Davidson has to succeed in India.

8. Conclusion and Recommendations

For an Indian market which has always welcomed bikes with high fuel efficiency, it is rather hard for stylish and powerful bikes which use excess of fuel to make an impression on the minds of people in India. But the new generation of people which have a passion for speed, having a high income level, coupled with the changes in the demand or tastes, the sufficient availability of fast bikes, developed infrastructure has changed the fortune for such two wheeler industries. But it is highly unpredictable if these stylish bikes can ever repeat the success of being highly fuel efficient, which are worth a high price even after selling. The existing bikes have become a part and parcel of life for an Indian family as the customers belong to the middle class, but at the same time may also restrict the rich family's accessories.

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The main global selling plan of Harley Davidson is to introduce a part of the US dream abroad. This is their plus point over other motorbike companies. To gain a firm hold on the international market, it is very important for them to introduce new strategies to promote and sell their product and appeal strongly to the potential customers. Their marketing strategy should include a pattern made depicting Indian culture. To explain this, Harley offers more lustrous and advanced kits for consumers in Japan than in the USA. It is with this effort that Harley's products are able to inspire the German and Japanese markets. They have even formed a joint venture with Porsche Company present in Germany to promote their scope in this industry.

" Greenfield" is the projected approach of entry and by implement transnational strategy. The expansion in two wheeler production will support Harley Davidson to develop further with its WOS venture in other Asian regions. planned decisions of investing will be an important step for this company to advance their worldwide accomplishment and attain a considerable market share. The brief proposal is illustrated in Table 4.

Factors

Suggestion

Country Preference

India

Company Type

Automobile

Sector

Two Wheeler

Entry Strategy

Greenfield investment with an official centre for operating.

Time of Entry

Quickly without any further delay.

Degree of penetration

Huge to acquire big returns.

Operating scheme

Transnational for international knowledge and soaring expenditure & responsiveness is required.

Employees

Ethnocentric, the main positions to be held by the people who led to the foundation of the company.