Market, industry and competitive analysis of yamaha indonesia industry analysis

In the Indonesia motorcycle market, several significant barriers to entry exist, making it difficult for new competitors to enter the market easily. The Political/Legal barrier to entry is perhaps the most significant one. Unlike other industries in Indonesia, the automotive industry is highly regulated. The Indonesian Government imposed a complete ban on foreign imports, which was only lifted in 1993, subsequently introducing high tariffs of 175 – 275% in lieu of the ban. The industry was even exempt from the ASEAN Free Trade Area agreement (AFTA), drafted in 1992.

In addition, even domestically located foreign companies are required by law to purchase/manufacture certain parts or components locally. Highly dominant industry players like Honda, Yamaha and Suzuki, who hold a cumulative market share of 96% of motorbike sales from 2003-2008 would also discourage new entrants, given also the fact that Honda, the dominant player in the market, has had a history of being willing to conduct price wars to protect its market share. In addition, the distribution and repair network is crucial in the motorbike industry due to servicing and maintenance needs.

Based on this aspect, it would be difficult for new competitors to enter the market due to a lack of distribution network and service centers. Bargaining Power of Suppliers: LOW Due to restrictions set in place by the Indonesian Government, mandating that certain parts and components has to be procured from local sources, the major motorbike companies like Honda, Yamaha and Suzuki have set up local factories to manufacture parts that they require for production. This form of backward integration has led to a lower dependence on suppliers for parts, allowing them to have better control over their supply chain.

Furthermore, due to these restrictions, the increase in demand for locally produced parts has led to numerous suppliers in the market, allowing ease of switching from one supplier to another, especially by the major players in the market who can afford to be more selective of their suppliers. Degree of Substitutability: LOW Several available substitutes for motorcycle transportation exist, such as cars and public transportation. However, due to the inefficiency of the public transportation system, according to a survey conducted, most respondents indicated that they would choose private over public transportation.

Reasons given were that of flexibility and speed, as public transportation was seen to be unreliable. The bulk of public transportation users were students who cited financial reasons for not owning private transport, which would suggest that price was a large factor in deciding the means of transport. Coupled with the Indonesian Government's policy of subsidized fuel, it would appear that motorbikes would be the prime choice for the average Indonesian and hence, substitutability would be low.

Bargaining Power of Consumers/Distributors: Moderate While the ratio of suppliers to consumers is small, which normally would indicate less bargaining power; it is important to note that sensitivity of consumers to price is high, with the cheapest range of motorcycles taking the vast majority of the market share of total motorcycles sold. However, while price is one consideration, another crucial factor would be the proximity of service and repair centers catering to the motorcycles, especially during the warranty period.

Hence, while consumers are free to choose between the various motorcycles that offer a more or less homogeneous product, they are still limited by other constraints, reducing their bargaining power. In addition, much of the information obtained about motorcycles comes through the local distributors and dealers, which would give them considerable influence over customer's demands and preferences. The major motorcycle companies like Yamaha and Honda have already taken steps to counter this threat by forming partnerships and linkages with local dealers to promote their products.

Competitive Rivalry: High An industry's level of dominance by individual firms is measured by the concentration ratio, which is a function of the level of output produced in an industry by a given number of firms. Currently the concentration ratio of the 3 largest firms stands at 98. 73%, which would indicate a high level of dominance, theoretically resulting in poorer competition. However, rivalry between these 3 firms is extremely high, with growth of certain firms exceeding the industry growth rate, which would indicate that market penetration is high.

Yamaha's market share increased significantly from 2005-2007 at the expense of its competitors Honda and Suzuki, with both their absolute sales and percentage of market share falling. This would indicate high levels of competition between these firms, rather than engaging in collusive behavior to eliminate competition. Within the motorcycle industry alone, some level of brand loyalty may exist; however, price and functionality remains a main concern for most consumers, with most purchasing motorcycles on credit. Thus brand loyalty is more likely to take a backseat in view of these more salient considerations.

Also, while consumer preferences (in terms of physical make of the product) do play a major role in determining sales revenue from a particular product (whether favorable, as in the Yamaha Mio, or unfavorable, in the case of the unpopular orange postman-bike), there is little room for physical product differentiation as competing firms are generally quick to latch on to the success of other firms by imitating successful products. Concluding Remarks: The motorcycle industry appears to be fairly saturated, with high barriers to entry and dominant players taking the bulk of market share.

As one of the dominant players in this market looking to increase sales, Yamaha can go about it in two ways. Firstly, market penetration via appealing to consumer’s price sensitivity, offering lower prices than its competitors. However, before embarking on such a strategy, it is important to consider potential responses from competitors. In this case, with Honda’s existing dominant market share and history of conducting price wars, it would seem unwise to compete based solely on price. This would be due to both profit margins being hurt and also difficulty of determining the outcome of a price war between the two companies.

The second possible strategy would be to invest into marketing to build stronger brand loyalty, reducing customer’s sensitivity to price. Also, marketing research could be conducted in order to identify potential market segments which have not yet been fully explored, venturing into them. While it is inevitable that competitors will eventually catch on, producing a similar product to target these new group of consumers, Yamaha will have gained a first mover advantage, with a better understanding of that market segment.