

No organization can  
exist in a vacuum



PEST analysis stands for “ Political, Economic, Social, and Technological analysis” and describes a framework of macro-environmental factors used in the environmental scanning. Each factor analyses a different dimension of the external environment that affects business.

## **Political**

This factor analyses and how and to what extent governments intervene with the functioning of an industry. The various methods in which government exerts influence are through tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability.

## **Economic**

These factors include economic growth, interest rates, exchange rates and the inflation rate. Factors such as interest rate affect the cost of capital and directly affect the investments firms make on projects. The overall health of the economy is a critical indicator of customer buying sentiment. Lots of firms have gone out of business in recessionary and depressed economies.

## **Social**

Social factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. This determines buying behaviour of consumers and general attitudes of buyers towards firms and their various offerings. This also determines what kind of products are in demand based on age, purchasing power and lifestyle preferences. Understanding customers is the most vital determinant of a firm’s competitiveness.

## **Technological**

These factors include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. Technology can prove to be a major entry barrier to some firms and a source of competitive advantage to others. It is vital for firms to align technology with the strategy that is followed such as cost leadership or differentiation. In a highly complex and dynamic technological environment not keeping with trends could easily destroy businesses.

### **b. SWOT**

SWOT analysis is a planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves identifying the internal and external factors that are favourable and unfavourable to achieving a firm's objective.

**Strengths:** These are internal characteristics of the business that give it an advantage over others its competitors such as superior R&D or established distributor networks etc.

**Weaknesses:** These internal characteristics place the firm at a disadvantage relative to its competitors such as high production costs or lack of capable workforce.

**Opportunities:** These are external chances to make greater sales or profits in the environment such as a growing population or easing of norms by the government etc.

Threats: Those external elements in the environment that could cause trouble for the business such as the potential entry of a larger player or substitutes for a firm's products.

### **c. Porter's Five Forces**

#### **Threat from new entrants**

Profitable markets will attract new competitors. New entrants will continue to be a threat until all opportunities for making a profit have been exhausted. Hence for a firm to succeed it must create barriers for entry. This can be in the form of:-

High capital requirement

Product differentiation

Switching costs etc.

#### **Bargaining power of Buyers**

This refers to the ability of customers to bargain with firms for better products and services at cheaper costs. The bargaining power of buyers increases when:-

Low switching cost

Product is more of a commodity

Availability of multiple vendors etc.

## **Bargaining power of Suppliers**

This refers to the situation when the suppliers of the firm bargain to increase cost of goods supplied and try to negotiate smaller credit periods , greater lead times etc. Such a scenario can occur when:-

Suppliers are very few in number

The material supplied is critical and very rare to obtain

There are numerous buyers for the product

## **Threat of Substitutes**

When the products of a firm can be substituted by cheaper alternatives then the threat of substitution is said to be high. Factors that aggravate this phenomenon are:-

Lower switching costs

Availability of cheaper similar quality substitutes

Propensity of buyers to substitute

## **Threat of competition**

This is probably the most intuitive factor that affects the attractiveness of an industry. Competitors tend to respond to firms strategies in such a way that reduces firms ability to generate above average returns. Competitors may compete on multiple domains:-

Increasing R&D to create more differentiated products

Entering into contracts and securing distribution channels

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Spending huge amount of money in marketing

Deploying state of the art technology to reduce cost and increase efficiency

Porter's Five Forces Model

### **Threat from Competition – High**

The market has numerous competitors and market share of the leaders isn't sizably ahead of any of the trailing service providers. The market is already about 50% penetrated which is considered as early maturity stage. Hence all competitors will start focussing on greater market shares.

### **Bargaining power of Buyers -High**

Call rates and ARPU have dropped drastically since more and more competitors have entered the market. This results in extremely low switching costs and customers switch to any provider who provides better rates and connectivity. Dual Sim phones have also resulted in people using only certain facilities of each provider and using others for the rest. With the introduction of mobile number portability switching to a new provider has become that much easier. Also the basic call rates and sms packs have become less of a differentiating factor and customers are demanding more and more at lesser tariffs.

### **Bargaining power of Suppliers – Low**

The major suppliers are equipment vendors such as Ericsson and Nokia Siemens, IT firms such as IBM and infrastructure such as Bharti and Indus Towers. Supplier bargaining power is low as service providers generally hold multiple licences to operate in multiple geographic areas and the top players

are diversified conglomerates and MNCs. Hence the customers based on their size (multiple JVs) and hold over the market, reduce the supplier's ability to bargain.

### **Threat of Substitutes-High**

The market for landline and CDMA has been steadily declining. The broadband penetration is also steadily increasing. This has resulted in customers migrating to cheaper alternatives over VoIP that have very low switching costs. Skype, Gtalk, Yahoo Messenger and Social networking websites are luring millions of customers away from traditional channels of communication.

### **Threat of new Entrants-Low**

Entering the Telecom sector requires huge investment in infrastructure such as a network, mobile stations and switching and routing equipment. Apart from this licencing fees and money to buy spectrum make costs of entering this market exorbitant. Technology and services are changing and evolving rapidly which makes establishing a hold in this market difficult for new entrants. Hence a combination of government policies and capital requirements creates high barriers to entry.

### **Conclusion**

In the near future firms in the telecom sector will have to evolve newer business models and a bigger basket of services to remain competitive. The 2010 report by Booz predicts four distinct models that businesses will have to adopt.

As is evident from the above report, Telecom world over and in India is at crossroads with new technologies, such as 3G, and the external environment commoditizing its offerings. It is predicted that the service providers will embrace open system architectures and move away not only from traditional business models but also abandon older service delivery platforms.

## **Two wheeler Segment-Hero Honda**

### **2. 1 Introduction**

Hero Honda, the largest two wheeler manufacturer in the world, sells more two wheelers than the second, third and fourth placed two-wheeler companies put together[1]. Its bread & butter model, the Hero Honda Splendor, is the world's largest-selling motorcycle, selling more than one million units per year [2]. It has consistently innovated & set the trend in the Indian motor-bike market. But over the past few years' competition, especially from Bajaj, TVS & Yamaha, has been making inroads into its core markets. Formed as a JV between the Hero Group of India, & Honda Motors of Japan, hero Honda today generates 60% of its sales from Splendor & Passion models [3]. Hero Honda has three manufacturing facilities based at Dharuhera and Gurgaon in Haryana and at Haridwar in Uttarakhand. Hero Honda's has a large sales and service network with over 3, 000 dealerships and service points across India

Currently the company is not as strong in the 200 cc+ segment as its competitors, & it is completely absent in the higher superbike segment. Superbikes, those wide-bodied, powerful motorcycles with an engine capacity of 500cc to 2, 500 cc, are pumping up adrenaline in the metropolitan areas of Mumbai, Bangalore, & Delhi. This particular segment

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has been hitherto ruled by imported offerings from Honda, Suzuki, Yamaha, et al. With the super bike segment steadily gaining its foothold in India, it presents Hero Honda with a great opportunity which if effectively tapped can generate enormous cash flows in the future. With Honda, Suzuki & Yamaha already present in the segment, we will have very high competition, but the very fact that the market is growing today & Hero Honda is a known brand name in the motor bike segment will help us overcome the inertia.

## **2. 2 Macro Environment Analysis**

### **a. PEST**

#### **Political**

Various political factors can influence the two wheeler market at large. Some of them are:

**Environmental Regulations:** With greater number of emissions norms & limits coming in, newer & cleaner engine technology becomes a pre-requisite. This entails greater expenditure on R&D, also in the short run sales would be affected since prices of cleaner machines most definitely would be higher.

**Regulations on the level of FDI allowed in the auto sector:** With greater amount of FDI allowed the level of international competition will increase since they can invest directly.

**Policies related to use of alternate or cleaner fuel technologies:** With subsidies on use of cleaner fuel technologies already in place abroad, it is about time that India follows the norm. And when it does, bikes with more ambitious technology will get more affordable, this we believe will be a boon

for the likes of Suzuki, Honda et al, who have such technologies at their disposal.

Large Scale development of a mass transit system: This will not be a major factor with regards to two wheeler segment, but even then the lack of such a system augurs well for the sector, though with increasing insistence on urban mass transit system, in the future the sales might take a hit.

## **Economic**

Economic factors like the level of inflation, employment level, per capita income etc decides the future course of any consumer industry. The following factors though will make a visible impact:

Petrol Deregulation: In India this has hitherto been a mix of politico-economic policy, but in today's world, this deregulation has become an economic reality! With petrol deregulation, we will have a fuel conscious customer who will increasingly look at bikes with higher mileage. But we don't believe that this will affect the superbike segment, since the guys buying those are basically enthusiasts who don't bother about the green-ness of the product

Faster Economic growth(@8% p. a : This gives a broad idea as to the growth of the country, a healthy consumer demand & increasing market potential. A steady & high growth rate augurs well for the manufacturers.

Infrastructure Development: With a better & a broad road network, the usage automobiles have increased on a whole. Better road side infrastructure like motels etc. has greatly aided road travel making biking etc. more popular

Ready availability of financing: Emergence of players in the vehicle financing sector has recently help fuel the growth in sales of higher end two wheelers like superbikes

## **Social**

Social trends are one of the key factors affecting a business. The following trends augur well for motorbike sales:

Increasing usage of motorbikes amongst youngsters

Setting up of biking clubs, on the lines of Harley Davidson clubs abroad, the biking culture is a blessing in disguise for the superbike segment.

Motorbikes today are seen as a necessity, & superbikes the natural answer to the adrenaline rush seeking youth.

## **Technological**

Technology has always been a revenue driver, may it be the assembly line or fuel efficient engines! The following technological innovations have had a positive impact on the automobile sector:

Fuel efficient engines

Carbon fibre bodywork, alloy wheels & moulded plastics which are being increasingly used in the manufacturing, has been possible due to the lower cost of production of these hitherto expensive articles.

Improved Design & Styling

Internet boom : This benefits the sector in more ways than one:

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Enhanced ease of collection and analysis of customer feedback

Faster & greater access of information has helped customer realize the full value of the offering

Supply Chain integration: This has helped to greatly reduce losses and increase profitability.

## **Legal**

Favorable legal framework aids in development of most sectors, Legal provisions relating to environmental pollution by vehicles and safety of vehicles also impact the market. The legal factors affecting the industry can be of three types:

### **Competition legislation**

Employment legislation: Presence of worker unions under law

Consumer protection legislations: A boon for consumers, these are norms which manufacturers heed to avoid legal action against them.

### **b. Porter's Five Force Analysis**

This framework, formed by Michael E. Porter, explores five principal forces that determine the level of competition and the attractiveness of a market. While in the previous segment we looked at the Macro Economic forces that affect the industry and the economy on the whole, this segment will concentrate mainly of the Micro Environment forces within the Two Wheeler industry. These forces are independent of any manufacturer.

## **Threat of new entrants- High**

Given India's growth rate (GDP at 8.9%, ending September 2010), there is still a lot of potential for growth, as the personal income levels increase in the middle class segment. Also the increasing urbanization and roadways coverage will improve the penetration.

But the entry barrier (capital expenditure & expertise) for the automobile manufacturing business is quite high; hence only established business houses with related experience and ability to grow inorganically could challenge the status quo. E. g. recently Mahindra & Mahindra chose the M&A route to make entry in the market by buying out Kinetic Motors.

Entries can also be made by foreign manufacturer's viz. Yamaha, Ducati, and Suzuki. One major advantage Indian players have is the knowledge of the requirements specific to India which will require a lot of development effort from incoming players. This along with the existing brand preference and loyalty created over decades creates a 'hard to replicate' strategy.

## **Threat of Substitutes – High for motorbike segment in general, Low for the superbikes particularly**

To avoid marketing myopia, one must realize that the industry we play in is basically the transportation industry; hence the threat of substitutes is pretty high. This stems from the plethora of models available within the 2-wheeler industry. Also under JNNURM, urban transport has recently got a much needed facelift in some of the major cities. Such measures along with the existing local Railway services might reduce the requirement of two-wheelers for short distance transit.

Small, low cost cars like the recently launched Nano by Tata and the much awaited car by Bajaj also provide a viable transport option for the small family. Although, if the sales figures of Nano are anything to go by, these will not prove to be a big threat.

### **Bargaining power of customers – High**

Because of the wide array of choices available and the established propensity of the Indian consumers to look for bargains, the threat of switching brands remains.

Since information is readily available, the consumers are at an advantage because they can compare features and prices across brands. With increasing availability of financing options, consumers do not delay purchase decisions. Extra services like service centers and availability of spares come paired with the financing option, which gives another point of discrimination to the consumers and an opportunity to the auto makers to differentiate.

The customer is the ultimate gainer, as the industries offer more services to attract them.

### **Bargaining power of suppliers – Low**

Most of the manufacturers being established & large in size, hold considerable leverage over the suppliers. But with suppliers consolidating, in future it might become a more level playing field.

### **Rivalry among existing players – High**

According to Apr-Nov 2010 sales figures, 80% of the market is divided among Hero Honda, Bajaj Auto and TVS. Among these, TVS has a major

share in South India. Bajaj recently stopped its scooter production in a concerted effort to reposition itself among the youth as a lifestyle product. For now Hero Honda remains the major player because of its wide array of products & also since Bajaj & TVS have been concentrating on exports for a while. But there is a lot of competition among them in the local market as well.

## **Conclusion**

As a new entrant with no prior businesses related to automobiles, a company would have a tough time to get the required expertise in this area. As it is a capital intensive industry, it would require a high volume of production (and sales) to achieve economies of scale, which will be difficult without brand awareness in such an oligarchy market.

However, if entry is made by an already established automobiles manufacturer through M&A, or by an established two-wheeler manufacturer with the required expertise, it could give stiff competition to the existing players in the ever burgeoning Indian two wheeler market.

C: UsersPinakiDocumentsXLRI-RelatedSubjects &

AssignmentsTerm2Marketing IHero\_Honda \_ProjectSales\_Apr-Nov\_2010. jpg

Source: <http://bikeadvice.in/indian-bikes-november-2010-sales-figures/>

## **Company Analysis:**

**After a broad industry analysis we need to now analyze our inherent strengths & weaknesses, one of the best known tools available for the same is SWOT Analysis, which will throw some light on internal as well as external factors affecting our company.**

### **STRENGTHS**

World's largest two wheeler manufacturer: It has been the market leader for more than 10 years, having around 40 % of total market share in 2010

Recognized and well established brand name: As a brand, it's synonymous with the 2 wheeler industry and fuel efficient bikes.

Quality after sales service: It lays huge stress on immediate and effective after sales service via its extensive sales and service network with over 3500 customer touch points across India.

Broad portfolio of bikes: It has an offering for every known segment of motorbikes.

Unique CRM initiatives: Programs like Hero Honda passport program, Convenient vehicular financing through its association with PNB etc. have helped boost its sales & loyal customer base

Low Maintenance cost and High resell value as compared to its competitors viz. Bajaj, TVS etc.



## **WEAKNESS**

Weak R&D of the parent: Earlier Honda was mainly responsible for the R&D part, now with the JV falling through Hero Group will have to heavily invest in R&D to hold their own in the future.

Low Brand value of the parent, Hero group, on its own in the automobile industry.

Low leadership pool: It's still a family controlled business, without a professional leadership pool, once the 1st generation promoters retire, a leadership vacuum is imminent.

Highly import dependent : 31% of the parts for its manufacturing & after sales service are imported

Absence in the high margin super bike segment means it is losing out on tapping this high growth segment.

Reliance on only 3 manufacturing plants: In case one of them shuts due to political or technological reasons, nearly one-third of its production would go down.

Lack of recycling scrap: Owing to the auto boom, by 2020 it is expected that the auto parts scrap generated due to the end of life of vehicles in India will be about 2.5 million tonnes & 40% of this would come from the two wheeler segment. But unlike its competitors, viz. TVS Company et al, Hero Honda isn't capable at recycling the scrap generated and hence may be the cause of a minor environmental threat. This can cause damage to their future sales as well.

Labor relations: Due to the absence of an organized labour union, its internal structure is fractured & the family members of the owners hold huge clout & find ready employment. Most of the perks & features available to the regular workers though are absent for the majority of the production workers, who are hired through sub-contractors. This has in the past caused strikes & has the capacity to upset production targets.

## **OPPORTUNITIES**

Fast growing motorbike segment, (around 9% p. a.) would provide avenue for further revenue growth

Opportunity of global expansion especially in Caribbean, Africa and Central America which are untapped territory

Untapped & fast growing super-bike (growing at 20% p. a.) & women's two wheeler market.

Increasing purchasing power & lack of substitutes make rural India an attractive market.

## **THREATS**

Intense competition from the likes of Bajaj, TVS, Yamaha & new entrants Honda & Suzuki

Increasing raw materials costs like that of aluminum & steel.

Global giants Suzuki & Honda (this threat is even more, now that the JV with Honda has fallen through) increasing their footprint in the lower range bike segment.

Introduction of low cost and fuel efficient cars like Tata Nano

## **Increasing petrol prices**

Ever stringent Pollution norms

## **Supply Network**

The above figure represents the supply network for Hero Honda, it sources its items from 5 major suppliers which are all owned by the Munjal Family, while some other parts are sourced from general two wheeler part makers, but certain components are sourced from suppliers which are fully owned subsidiaries of Honda Motors India. Now following the split with them, certain problems might creep in in this supply network.