

Opportunities and threats of the colombian motorcycle industry



Introduction and Background

Colombia in the recent decade has had continued growth after the recession in the late 90's. Strong growth is seen between 2005 -2007 when the growth rate increased from 5.7% - 7.5% while the inflation rate stayed below 6% (BARRIENTOS 2010). This shows that the Colombian economy is recovering slowly without overheating. Its GNI has significantly increased from \$1700 to \$8600 in the past 5 years even with the impact of financial crisis in year 2009(Bank 2010) These three factors show the steady economic growth which improves the stability and confidence for investments. In addition, other businesses have increased confidence investing in Colombia. There has been an increase in investment from 15% to 26% of the GDP in 2002 till 2009(Anonymous2009a). The Colombian FDI in year 2010 reached \$6.4B in the first 8 months and rose to 19.7%, compared to figures last year. Business Week also published an article on the Colombian economy and titled it " Colombia: the most extreme emerging market on Earth" (Farzad 2007, Alsema 2010). All of these positive indicators show that the Colombian economy will prove to be a favorable environment to start business in. In other words, a stable GDP with low inflation, plus a rapid increase of GNI, will allow a higher demand of luxury motorcycles. This is a critical element because many neighboring countries such as Brazil have not shown economic potential and its recovery averages 2% less GDP growth as compared to Colombia (Anonymous 2009b).

Income

In relation to the motorcycle to income earning, a motorcycle is considered as a luxury good with an estimated price of \$2150 (Davidson 2010), thus <https://assignbuster.com/opportunities-and-threats-of-the-colombian-motorcycle-industry/>

targeting high income earners. Colombia has an unequal distribution of income with a GINI index of 58.5 (Bank 2010). 62.7% of the income belongs to 20% of the population (Development 2008). However, in considering the fact that the population with disposable income higher than \$25,000 increased from 6.2% to 11.2%, in unit terms, there are 608,000 Colombians who now have the ability to spend \$18,750 on average (Euromonitor 2010). This signifies a quick growth in disposable income as a result of an increase in the demand of luxury goods. The trend can also be observed by the increase in the constant PPP since early 90's. In 2010, the value of PPP is \$1273.18, 6 times of that in 1990 (Nations 2010). Colombians are observed to be boosting their living standard allowing them to afford luxury goods such as Eagle Motorcycles. A luxury product requires a continuous growth for its demand to increase. Colombia's growth in disposable income therefore provides a favorable environment.

Transportation

Colombia has a great aviation transportation system, with direct flights to 984 different airports. Additionally, Colombia has 40 regional airports with the major international Airport in Bogotá's El Dorado handling cargo weight 350 million metric tons annually, 1st for cargo capacity and one of the busiest in Latin America (Division 2007). This will allow for the transferring of goods to be reliable and thus helping on the catching up on tight schedules of custom made motorcycles. This is an opportunity because in order to make shipments on the motorcycle, a convenient transportation to deliver around the country is required.

Increased demand

In the recent years, there has been a demand boom of motorcycles in the Latin American countries (Corredor 2002). Latin America has the 2nd highest increase in demand of motorcycle, ranking just below the Asia Pacific (Freedonia 2007). The increase in exports from major competitors proves the increase of demand of motorcycles (Francis 2010, Farlex 2007). Two major competitors, Honda and Mitsubishi, had increased their exports to 100,000 units to meet the demand of motorcycles (ANONYMOUS. 2010c, Anonymous 2010d). Although it may vary with the actual product, it is an indication of the high demand of motorcycles. Due to the increase in demand, Eagles might be able to gain market share during the boom of demand especially since the target market is only 11.2% of the population.

RISK

Competitors

As mentioned above, there are several major competitors. Eagles has an average price of \$2150, while Honda is launching motorcycles for only \$600 (Davidson 2010, Hagiwara. 2010). Even though these two products may not be resemblance substitutes, and Honda is the market leader who has 27% market share (Gale 2007), this will be a major risk. If the Honda campaign selling lower-priced motorcycles is successful, the market share of Eagles may be damaged. This low price campaign may be caused by the production of Honda in Brazil, as it has a lower labor cost as compared to US (Worldsalaries 2008, Bureau 2010). Eagles should consider lowering the price and cost to increase their competitiveness.

Trade

There is a lack of interest in Colombian peso. It is suggested that they should revalue the currency (STRAITS 2010). Trade with neighbouring countries should be taken into account, particularly since Venezuela had implemented a trade ban on Colombia (Anonymous 2010e). Other neighbors such as Ecuador have no ability to digest excess supplies. Weak demand from neighbouring countries cannot provide a buffer for the occurrence of any incidents. Using the FTA with US as an example, (Defaer 2010, Smith 2008), once the relationship breaks down, there will be a less exports to Colombia and therefore needed to spread it to surrounding areas. With a weak demand from the surrounding, an excess in the amount of stocks would occur.

Unemployment

Other than the revaluation of Colombian peso, other economic infrastructure proves to be worrying. Colombia's unemployment rate has not decreased since year 2006 and reached 12. 5% last year with 49% of poverty (Benford 2010 , John 2009) These conditions creates an income gap discontinuing the growth of potential customers. Eagles will require a constant increase in the population entering the upper middle class as new customers. However, if a large unemployed population exists, gaining potential customers will be difficult.

Conclusion

Based on the evaluation shown above, Colombia has more favorable terms which should further investigate the suitability to establish Eagles in Colombia.