

Pratham Cycles: Moving Ahead

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Abstract: In 1956, Pratham Cycles was started at Jalandhar with manufacturing of cycle components and soon it started producing cycle with initial capacity of 25 per day. In depth technical knowledge, marketing skills and commitment of the management has established Pratham as leader in Indian bicycle industry.

Now Pratham Cycles is manufacturing over 5 million cycles per annum and its passion of setting higher standards for itself and delivering simply the best, has found itself a place not only in the Guinness Book of World Records but also in the hearts of millions as happy users.

Pratham Cycles is ISO9001 & ISO14001 Certified from BVC of UK and with a distribution base of 25 suppliers and 2800 dealers; it is exporting products of Mid Premium, Premium & Super Premium segment to over 70 countries including Germany, Finland & Poland.

The increased concern for health issues and air pollution has positive impact on the demand of bicycles in developing as well as developed nations. Pratham's rich experience and strong financial and technical credentials has made the business run successfully in international market. As a part of Strategic Acquisition, it has acquired 60 per cent stake in Sri Lankan bicycle manufacturer ABC Ventures and entered in to Sri Lankan market as FDI. It will help Pratham Cycles in increasing their production capacity and expanding the business into European markets. It is trying to meet the anticipated demand of the different customer segments. This is as per the aggressive move of company and resulting in the global footprints of the company.

Key Words: Pratham Cycles, Indian Bicycle Industry, Exporting, Strategic Acquisition, FDI

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I. Introduction

Foreign direct investment in Indian Automobile sector has gone through many phases after 1991's open economy policy of Government. Recently it has registered a growth of 5.41% in the year 2015-16. Government's Ministry of Heavy Industries & Public Enterprises rolled out two plans on Automotive Mission Plan 2006-2016 & 2016-26. In the first plan Indian Government attempted to position India as a Global Automobile & Auto components manufacturing hub & in the second plan Government presented India as R&D research hub for global automakers. Below Table 1 and 2 below shows the domestic market share of two wheelers as comparative to other vehicles and its trend of export in past few years

Table 1 Market share of various vehicle categories in India

Passenger vehicles	13%
Commercial vehicles	3%
Three wheelers	3%
Two wheelers	81%
Grand Total	100%

Source : Society of Indian Automobile Manufacturers (SIAM), 2017-18

Source -<http://www.siamindia.com/statistics.aspx?mpgid=8&pgidtrail=12>

Table 2 -Automobile Exports Trends in India

Category	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Passenger vehicles	559414	596142	621341	653053	758727	747287
Commercial vehicles	80027	77050	86939	103124	108271	96867
Three wheelers	303088	353392	407600	404441	271894	381002
Two wheelers	1956378	2084000	2457466	2482876	2340277	2815016
Grand Total	2898907	3110584	3573346	3643494	3479169	4040172

Source : Society of Indian Automobile Manufacturers (SIAM)2017-18

<http://www.siamindia.com/statistics.aspx?mpgid=8&pgidtrail=15>

From table 3 reflecting FDI inflow, we can see that first three positions are held by Japan, USA, & Germany for Indian automobile market. Selection for mode of entering into a foreign market is a significant decision for an international firm.

Table 3-Share of top five countries attracting FDI equity inflows for automobile industry (From January, 2000 to December, 2016)

Ranks	Country	Rs crore	US\$	Percent of Global FDI inflow for Automobile industry
1	Japan	26634.46	4729.42	28.36
2	U.S.A	11264.45	2046.67	12.27
3	Germany	10684.44	1866.58	11.19
4	Netherlands	7539.33	1459.07	8.75
5	Mauritius	6614.33	1233.36	7.40
	Total	62737.01	11335.1	67.97

Source - Department of Industrial Policy & Promotion database (DIPP database)

Review of Literature & Research Methodology:

A study (Osland, G. E., Taylor, C. R., & Zou, S. (2001)) compared the factors which affected the modes of entry and decision for expansion of US and Japanese firms. Mail surveys, was used to collect data from top executives in both Japan and the US. The study concluded that Japanese are sensitive to external risk and other target market factors while Americans are sensitive to international experience for selection of modes of entry. Joint ventures are more appropriate for internationally-experienced firms, as compared to experienced companies.

Indian roads provides favourable condition for use of bicycle for short trip lengths, with some barriers to affordability, attitudes towards Non Motorized Vehicles (NMVs), etc (Replogle, 1992b). The transport here is influenced by poverty. There are many evidences to illustrate the difference between planning methods of urban and rural transportation. (Tiwari, G. (2002)).

A firm-level analysis was undertaken in the year 1993-94 to 1999-2000 for three different industries - automobiles, electricals and chemical. The analysis concluded that US-affiliated firms are looking forward for technological improvements to enhance productivity growth, while Japanese-affiliated firms have thrust for efficiency improvement (Banga, R. (2004)).

In outward foreign investment firm specific advantages of Indian automotive firms get transferred to host countries. Greenfield foreign investment act as a channel for enhancing the investing firms' global visibility, technological capabilities and preferences of customers there (Deng, 2007).

The share in growth of Indian and Mexico MNC's in last decade was evident in automobile sector. Mexican and Indian MNC's focused more strategies for economic development for a better access to improved technology, marketing and organizational know how etc. A comparative analyses on the performance of automobile sector in India and Mexico, mainly in passenger car and Utility vehicles sector (Kumaran, G. B. (2008)). An study on data for 1070 large Japanese firms concluded that firms should invest abroad and export rather than just firms that just export. Head, K., & Ries, J. (2003).

The Case Study is disguised and primary data were collected through interviews and secondary data were collected from various sources.

Table 4 -Pattern of FDI Inflows in 6th five year plan(amount in Rs crore(US\$in million) in F.Y(April-March)

Sector	2012-13	2013-14	2014-15	2015-16	2016-17
Automobile Industry	8384(1537)	9027(1517)	16760(2726)	16437(2527)	10824(1609)

Source -Fact sheet on Foreign Direct Investment(FDI) ,DIPP.nic.in

From table 4 it can be seen that automobile industry inflows in India grew in the year 2014-2016. India is a big player in global automobile industry along with EU, China, Japan and Taiwan which account for 87% of global production.

Bicycle Industry & India:

Bicycles are a two-wheeler vehicle that is an eco-friendly and inexpensive way of commute. Manual pedal bicycles do not require any external fuel whereas electric-driven bicycles are assisted by electric power and have the option to be manually pedalled.

According to Research Report of Persistent, there are many facts supporting re rise of bicycle industry. Intensifying traffic congestion issue and elevating fuel prices are foreseen to remain the key factors raising the demand for bicycles thereby. Growing health concerns among consumers, in addition to surging acceptance of green transportation in an effort to reduce carbon footprint, will play a pivotal role in the growth of global bicycle market in next eight years

India is also have significant presence in bicycle industry and India manufactures around 10% annual bicycle production. The Exports from India are to Africa .Today there is upcoming trend for different cycles for ladies , kids and gents. The problems like low product differentiation and high fixed cost, are making Indian bicycle industry lagging behind Chinese bicycle industry. In the table 5-Contribution of different countries for export of bicycles and contribution of India is 0.5% as per Central Intelligence Agency,2017

Table 5 -Contribution of different countries for export of bicycles

Rank	Expoter	2016 bicycle export	% World total
1	China	US\$ 3.1 billion	35.2
2	Taiwan	\$1.5billion	16.8
3	Netherlands	\$755.3 million	8.5
4	Germany	\$619.4 million	6.9
5	Combodia	\$413.7 million	4.6
6	Portugal	\$244.3 million	2.7
7	Belgium	\$207.3 million	2.3
8	Hungary	\$205.2 million	2.3
9	Italy	\$190.5 million	2.1
10	Bulgaria	\$146 million	1.6
11	Spain	\$122.2 million	1.4
12	Poland	\$115.5 million	1.3
13	France	\$110.1 million	1.2
14	Austria	\$105.5 million	1.2
15	US	\$100 million	1.1
16	UK	\$99.3 million	1.1
17	Czech Republic	\$87.7 million	1
18	Bangladesh	\$85.6 million	1
19	Romnia	\$65.5 million	0.7
20	Indonesia	\$65 million	0.7
21	Thailand	\$52.4 million	0.6
22	Turkey	\$49.7 million	0.6
23	Japan	\$ 49.6 million	0.6
24	Tunisia	\$43.7 million	0.5
25	India	\$43.7 million	0.5

Source_ The World Factbook, Field Listing: Exports – Commodities, Central Intelligence Agency, 2017

Pratham Cycles : Past, Present & Future

The philosophy of the Pratham Cycles management is teamwork and high commitment for the work .It was started by the four brothers who lived in Pakistan. After the political division of British India , they decided to began the business of bicycle manufacturing in India and they shifted to Jalandhar.

In the year 1956, these brothers began assembling the key components of bicycles at their manufacturing plant in Jalandhar. In their initial days the early the plant manufactured just 25 cycles per day. But with the period of time more skilled workers ,administrators and technocrat came into being which supported the production activities and the rate of productivity grew upto 18,500 cycles a day, the highest in global reckoning. Pratham captured 4 percent share of the Indian market, making a record entry in Guinness book of world record in 1986. Since then Pratham Cycles has been able to maintain its leadership in the cycle manufacturing industry.

The market of bicycles exists in domestic territory as well as foreign markets. Today, the yearly domestic demand for bicycles is approximately 10 million units, and 2.5 million units is demanded by the government for the different welfare schemes. The huge demand is there for bicycles in India because 60 percent of the Indian population is residing in the rural areas which belong to low income group. These areas lack the concrete roads and the roads often get damaged during monsoons. However, major competitors for bicycle manufacturers are public transportation such as buses and local trains which are close substitutes of the bicycles and are cheap requiring less effort in commutation.

This industry faces low product differentiation but has the cost advantage for the older firms as compared to new prospective firms. The industry make changes in their output according to societal requirments like health issues(obesity) and environmental conditions(air pollution) which has positive impact on the production and demand of bicycles. After July 1997, entry of foreign firms in India increased the competition which generated the necessity for innovation to survive.

The major threat came from because of cost of inputs was more for Indian manufacturers as compared to Chinese manufacturers .With the advent of time and upcoming competition in India, Indian Government developed some policies like prior approval of the government before increasing the price , the distribution

margin for the distributors, sales agent etc should not exceed 15 percent of sale price and it was necessary to follow the international technical standards by the International Organization for Standardization (ISO).

SWOT analysis of Pratham Cycles

Strengths

Company had very good experience and also have strong financial position. They have well recognized image in both international and Indian market as largest bicycle manufacturers in the world. They have good internal control throughout the organization. Training is a continuous process within the Company. Pratham cycle has technical collaboration with New Bicycle Industries for manufacturing of high end bicycles. They have quality management system so as to audit the quality of the product manufactured for providing best product to their customers

Weaknesses

The increase of input cost of tubes and tyres is crucial as it is not easy to increase to price on frequent intervals. Overall rise in cost resulting in to price rise is a major weakness.

Opportunities

Company had ability to expand in global markets. It can diversify as per the market demand of kids, ladies and can make equipments for gymnasium.

Threats

The volatility of steel prices is the biggest threat. The obsolescence of the product can lead to lowering of demand and will affect the profit stream. The imports from China are at the cheaper rate which are acting as the substitute and threat to Indian bicycle manufacturers. The high share of domestic freight cost in India leads to a price disadvantage for Indian manufacturers in the global market,

Porter's Five Forces Analysis of Pratham Cycles

1. Rivalry among existing competitors is high

There are high exit barriers because of high fixed cost, as Indian plants practice manual welding and manual assembly as against international trend of robot-based welding and automated assembly. There is almost insignificant R&D infrastructure in the country for advanced technologies for bicycles. Moreover the differentiation in the product is difficult to show

2. Threat of new entrants is low

As the manufacturers of china are entering the Indian market which are already proving the bicycle import at low cost so it will be tough for the any other manufacturer to enter bicycle market. Moreover due to huge cost of investment entrants are less.

3. Threat of substitute is low

The relative prices of other means of transport are higher than the bicycle. Due to change in life style of the people they are getting health conscious and cycling is good so they would not like the substitute of bicycle .

4. Bargaining power of consumers is high

There are competitor companies for manufacturing bicycle which are alternatives As the consumer is price sensitive so he look towards other big brands like Avon and Ti cycles.

5. Bargaining power of supplier is low

The raw material and labour are abundantly available for manufacturing as a consequence the negotiation is low from the side of supplier.

Competitor's Analysis

There are 3 major players in manufacturing of bicycle : TI cycles of India, Pratham Cycles, and Avon Cycles.

TI Cycles Of India: - T I cycles of India was started in 1949 and is ISO 9001-2004 certified company.They are the major competitors because of their strong R&D facilities ,customer centric approach and the total quality management techniques used by them . There business is diversified into sugar,cycle, fertilizers and auto component etc.

Avon Cycles: -It was originated in 1951 by the family of PAHWAS,. They make are also certified by ISO 9001- 2000. They involve themselves in CSR activities and try to make good relationship with the customer. They are also the major exporters of bicycle from India.

Pratham Cycles- Pratham Cycle sustains with its ability of low cost of procurement of these raw materials in Jalandhar.

Entry of Pratham in to Sri Lanka :

Sri Lanka is a close neighbour of India with many similarities and high socio political affiliations. The following facts and figure of Sri Lanka justifies decision of Pratham to enter in to Sri Lanka.

Political System:-Sri Lanka is known to be a socialist and a democratic state which is having mixed governance of a presidential system as well as parliamentary system. The parliamentary system is governed by Constitution of the country. Most provisions can be amended by a two-thirds majority. Sri Lanka has undergone changes in political scenario and has gained political stability in present scenario government. Business related violence is a big issue and has very less impact on the investment environment.

Legal System: The Legal system of Sri Lanka is very complex and is a mix of several laws. The introduction of recent laws like of greater requirements for firms to recycle ,age discrimination, an increase in the minimum wage etc may have impact on organisation's actions. Sri Lanka is having strong labour policies which dictate working hours, age limits, and prohibition of child labour. Import and Export Control Act of 1969 is known to regulate the investments related to international businesses for Sri Lanka.The Central Environmental Authority (CEA) which was established in August1981 under the provision of the National Environmental Act No: 47of 1980 is known to handle environmental considerations.

Economic Factors- The per capita income of the country is known to have doubled since 2005.Moreover during this year, the poverty has declined from 15.2% to 7.6%. In the first quarter of 2017 ,GDP grew by 3.8% and 4.0% in the second quarter.Various economic parameters can be seen from the table below:-

Table 6- Various Economic indicators of Sri Lanka

Statistics	Value
GDP (purchasing power parity)	\$278.2billion(2017est.) \$265.6billion(2016est.) \$254.5 billion (2015 est.)
GDP - per capita (PPP)	\$13,000(2017est.) \$12,500(2016est.) \$12,100 (2015 est.)
GDP - composition by sector	agriculture: 7.8% industry: 30.5% services: 61.7% (2017 est.)
Household income or consumption by percentage share	lowest 10%: 1.6% highest 10%: 39.5% (2009)
Inflation rate (consumer prices)	6%(2017est.) 4% (2016 est.)
Industries	processing of rubber, tea, coconuts, tobacco and other agricultural commodities; telecommunications, insurance, banking; tourism, shipping; clothing, textiles; cement, petroleum refining, information technology services, construction
Industrial production growth rate	5.4% (2017 est.)
Exports	\$10.93billion(2017est.) \$10.31 billion (2016 est.)
Debt – external	\$47.8 billion (31 December 2017 est.) \$45.26 billion (31 December 2016 est.)

Source –CIA Factbook

Social Factors-Sri Lanka with a population of about 20 million people has a huge skilled labour force.It is recorded that life expectancy at birth is 75 yrs which is very close to projected lifespan in the developed areas .Greater than 67% of the population is lying between 15 to 64 years .The increase of TV channels and various other mass media networks indicates developments and changing attitudes of people.

Technological Factors-Sri Lanka has spend more than 5 billion us dollars on reaserch and development(R & D) in the year 2008. According to the NSF survey 461 patents have been registered with the National Intellectual Property Office of Sri Lanka.The growth rate of a patent signifies increase of interest of innovators in protecting (IPR) intellectual property right.

Enviornmental Factors

Sri Lanka has tropical climate with upland areas and sea breezes for the whole year But withe increasing. projects, problems like pollution, filling the marshylands , unauthorized buildings and deforestation are big challenges Sri Lanka is facing .But theMinistry of Environment and Natural Resources (ME&NR) which

is responsible in the affairs of the Central Environmental Authority (CEA) for integrating environmental considerations to develop the country.

FDI operations of Pratham Cycles in Sri Lanka

A sample of 364 Japanese foreign subsidiaries was examined for analyzing foreign entry-mode choice. The results confirm that the normative pressures, cognitive mindsets, regulative settings of the host-country environment affect the entry strategies of firms into foreign locations. (Yiu, D., & Makino, S. (2002).)

Pratham Cycles has acquired 60 percent manufacturing facility in Colombo, Sri Lanka, which is beginning of the international expansion of bicycle manufacturing company of India. Through this expansion they are targeting the sales of 1 million bicycles per annum till the year 2019. Pratham will be supported with the benefits linked with Sri Lanka, which will be regaining the status of duty free imports to European Union member states. This decision is also resulting in the global footprints of the company. It is owning 60% stake in ABC Ventures which is an export oriented bicycle manufacturer located in Sri Lanka. The aim of the company is also to grow its production capacity. The advantage of joint venture is that BSH knows about the customer requirements of EU regarding component base, colour and material handling. BSH can help to manufacture small units as per the demand in Europe. The Sri Lanka based manufacturing facility will help to strengthen the exports to the European markets and will help to increase the production capacity of bicycles to 2,50,000 bicycles yearly. The manufacturing is located in Biyagama Export Zone and it complies with all global standards. Pratham Cycles is trying to acquire the capabilities of manufacturing and designing based on European customer requirements. They are planning to set up the innovation centre and design studio and innovation centre in Europe. In Sri Lanka the manufacturing of Pratham Sprint Pro has aluminium body constituting of gears which make it suitable for mountain biking racing and adventure sports in. They have portfolio of 17 different products ranging from 7000 to 15000. The Expansion in Sri Lanka's was a geographical placing healthy business climate, speeding up the exports as Sri Lanka's geographical placing in the Indian Ocean and its hub position induced exception. Moreover the trained and educated labour have knowledge to assimilate new technology oriented methods of production. With international sales the local sales will also be looked after and are equally important for the Pratham Cycles. They are planning to expand the production in Sri Lanka to one million units annually. There are strategies which would be gearing the manufacturing 800 units per day.

II. Recommendations for Stake Holders in India

- 1) There should be indigenous production of raw materials like carbon, aluminium, titanium etc
- 2) Certain incentives should be made for encouraging the foreign investors so that they can collaborate with the manufacturers of India.
- 3) Government of India should give freight subsidy to enhance the Industries competitiveness in domestic and global market.
- 4) It is recommended that government should waive the taxes on cycles consumed by low-income population. Government should consider giving freight subsidy to the industry at least towards the domestic freight costs.
- 5) The government of India should look into reducing the import duty to ensure that the Export market of Europe is unaffected by distortions.
- 6) There should be the technology support scheme for providing the support to bicycle manufacturers component manufacturers so that bicycle manufacturers can upgrade their technologies.
- 7) It is also recommended that a dedicated cell in the Department of Industrial Policy and Promotion (DIPP) should be created to look into the challenges and requirements related to the growth of this industry.

III. Conclusions

The future of the bicycle industry is good. The outlook for the future in bicycles is positive, though stability is the story of the past. Overall, the sales of bicycle industry is around 15 to 20 million bicycle units yearly, which includes accessories, service and parts. This is a healthy sign for growth of the industry. Due to trends linked to green movement, sustainability of the environment, concern of the people for the health, high fuel prices the bicycle industry gets the push in its sales. Pratham Cycles is readily serving the domestic as well as the foreign market example is the acquiring majority stake in ABC Ventures in Sri Lanka, for increasing the production capacity and expanding the business into European markets. It is trying to meet the anticipated demand of the different customer segments. The company is into Export Company in the Africa, Asia and Middle East. Pratham Cycles has the vast distribution network of about 3000 dealers across India and is the undisputed market leader of bicycle industry in India.

Question 1. Identify and project another country with a potential for expanding business of Pratham Cycles.

Question 2. Find Key Areas of Pratham Cycles and suggest appropriate strategies for domestic market.

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