

Market opportunities in India. Case study: Piaggio G

di Oana Faraon

This paper analysis the potential of the Indian market representing the basis for the marketing plan of selling the new Vespa LX 125 model. This consists in market audit and preliminary marketing plan that describe the target market and specific product, price, promotion and distribution strategies.

Questo ampio intervento indaga il potenziale del mercato Indiano, base del marketing plan per l'introduzione del nuovo modello Vespa LX 125. L'indagine si concentra sul controllo delle attività di marketing e sulle attività preliminari del plan: descrizione del target e analisi del marketing mix

Executive summary

India is a country of contrasts, marrying huge potential with profound and chronic challenges. Regarded by some historians as the "oldest living civilization of Earth", India has a continuous recorded history since the time of the Vedas for over 5000 years. Several elements of India's diverse culture, such as Indian religions, yoga and Indian cuisine, have had a profound impact across the world. Its recent high economic and social growth rates have improved the prospects that the world's second most populous country will be able to raise incomes broadly for its 1.189 billion people, population expected to rise to 37% by 2025, making India by far the largest home for education services consumers in the world. And yet India has the highest illiterate adult population in the world, more than three times the size of China.

Beside all this elements, such as beliefs, religion, traditions, sports, cuisine, music, clothing, that make India fascinating to the rest of the world, it hides beneath it all overwhelming issues like high rates of poverty, malnutrition, illiteracy, corruption and injustice, discrimination and inequality between men and women. Both positive and negative aspects regarding India have a great importance in analyzing its potential because in this way it is possible to minimize the risk of encountering unexpected facts or events that might endanger the success of the marketing plan.

No doubt that the Indian economy has been treading an exceptional growth path since the last decade and its diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of services. Therefore India represents a huge potential for any manufacturer to try to sell its product on this market. The Italian auto maker Piaggio is planning to manufacture two wheelers in India in the coming years, as part of the company's growth plans for Asia, beginning with a Vespa LX 125 model specially developed for the Indian market. Detailing the company's strategic plan for the 2009-2012 period, Piaggio aims to create the conditions for strong growth in Asia. As part of the plan, the firm would

strengthen its direct industrial presence and also increase the offering of two-wheel vehicles to be produced in India as well and commercial vehicles, backed by the development of distribution structures, organization, and human resources. Piaggio India truly represents a seamless integration of the best of skills, technology, design research and customer care with Indian resources, infrastructure, intelligent manpower, marketing and financial skills, and most importantly, a deep understanding of the Indian market and customer needs.

Vespa is the expression of a uniquely distinctive lifestyle. Its enduring success owes much to its extraordinary origins and to its symbolic and iconographic identity. Through a combination of cultural sensitivity and constant innovation, the brand continues to surprise and delight fans all over the globe. Style is therefore an important part of Vespa's competitive advantage, as are engineering, affordability and eco-friendly operation. The psychographic and demographic profile of the target consists in young business men and women, with an age between 18–45 years, medium to high educated, belonging to middle to high class income, characterized by combining utility with fun and style.

The reason to support this plan of selling Vespa into the Indian market is that as of 2006, private motorized transport (mainly cars and motor scooters) accounted for a small but rapidly growing percentage of travel, about 10–20% of all trips. Public transport use for social and recreation trips is low while use of three wheelers and personalized modes like cars and two wheelers is high. This is because comfort is the first priority for social trips and cost is secondary. The data presented indicates that two wheelers mainly serve those going to work, while three wheelers are used for education, recreation and shopping.

Shopping habits of Indians are changing due to their growing disposable income, relative increase in the younger population, and the change in attitudes towards shopping. The emphasis has changed from price consideration to design, quality and trendiness. The desire to look and feel good is also guiding factor for customers while making their purchase decisions.

The Piaggio Plan for the Indian market will entail investments totaling 30 million euro in financial years 2010 and 2011, with the goal of achieving revenues of approximately 70 million euro in 2015 – when investment payback is projected – on sales of approximately 110,000 scooters. The new Piaggio industrial initiative in India will have the support of the Group's local industrial and commercial operations through the Piaggio Vehicles Private Ltd. Subsidiary. Taking also in consideration that the cost for labor and capital are lower than in other countries, the retail price can be set at € 840 or Rs 55000. The promotion aspects will concentrate on three characteristics of Vespa: fun, fashion, freedom, because Vespa is not just a scooter, is a way of life. Taking in consideration all facts, the new Vespa LX 125 will have a great success on the Indian market, as it had in all other countries around the world.

Contents

1. Introduction	4
2. The product.....	4
2.1 Product evaluation.....	4
2.2 Major problems/resistances to product acceptance	6
3. Market analysis.....	6
3.1 Target market (s).....	6
3.2 Geographical region(s).....	6
3.3 Estimated market sales for the planning year	8
3.4 Consumer buying habits	9
4. SWOT Analysis	11
5. Competitor analysis.....	11
5.1 Competitor's product(s)	11
5.2 Competitors' price.....	12
5.3 Competitors' promotion and advertising methods	12
5.4 Competitors' distribution channels	13
6. The price.....	14
7. The distribution	16
8. Advertising and promotion.....	20
9. Marketing objectives.....	24
Sources of information.....	27

1. Introduction

Vespa is the expression of a uniquely distinctive lifestyle. Its enduring success owes much to its extraordinary origins and to its symbolic and iconographic identity. Through a combination of cultural sensitivity and constant innovation, the brand continues to surprise and delight fans all over the globe. The next step to development is implementing the strategic guidelines and industrial plan of a new Piaggio Group initiative in India for the production and sale of two-wheel vehicles, beginning with a Vespa LX 125 model specially developed for the Indian market.

2. The product

2.1 Product evaluation

a. Relative advantage

Consumers in the qualified available market need and want more than mere transportation. Style is therefore an important part of Vespa's competitive advantage, as are engineering, affordability and eco-friendly operation.

The Vespa LX 125 offers a blend of classic style and sharp edge modern design together with practicality, safety and agility. The all-steel body sets the Vespa LX 125 apart from any other scooter produced today and offers unmatched rigidity and steering precision. The classic Vespa outline is more sharply drawn than on the popular Vespa ET, which the LX replaces, and the round headlamp and rear-view mirrors in chrome-plated steel are a style statement straight out of Vespa history. The saddle height gives riders of any height perfect control of the vehicle and the 11inch front wheel with a new five-spoke design in aluminium alloy guarantees greater stability and pinpoint steering. The braking system, powerful 200mm front disc brake with a calliper with two opposed pistons, ensures stability and a smooth ride.

b. Compatibility

The traffic in India is highly intense, especially in the cities, and it serves around 1.1 billion people. Therefore, due to this and to the fact that the transport infrastructure still needs high investments, the Vespa LX 125 is the appropriate choice in this conditions. Vespa has always stood out for its steering precision and easy handling. With its innovative 4-stroke engine, Vespa LX 125 offers the advantage of low running costs boasting 45km to a liter. The timelessly elegant design and compact steel body are the hallmarks of Vespa that make it stand out from the throng of urban traffic.

c. Complexity

The new LX 125 model, unmistakable appeal and practicality combined with comfort and modern design, creates the spirit of Vespa. The most high-tech features complemented with

sophisticated and elegant design, make this scooter highly desirable, whilst still paying a tribute to Vespa tradition. Vespa, a way of life, without compromising style. Sporty, dynamic and stylish are all characteristics that describe Vespa LX 125.

Design and technology have been carefully considered to emphasise the spirit of Vespa, and the design retains the values of the classic original whilst combining technology that is right upto date. Born on the streets of Rome and now headed to the streets of India, a Vespa LX 125 is the smart way to get about with ease. It has been equipped with the following features¹:

- Powerful and economical 125cc four-stroke engine, fuel injected four-valve four-stroke engine
- Advanced Electronic Fuel Injection for improved starting, performance, fuel economy and low emissions.
- Electric start
- Large under-seat lockable storage space
- Optional accessories include windshield, chrome-plated tilting rear luggage rack, and custom decal kits.
- Fuel gauge and digital clock included in dash
- Anti-theft immobilizer with electronic coded key
- Convenient shopping bag hook and lockable glove compartment for extra storage
- Classic Vespa all-steel body for solid handling, longevity and safety
- Low-emission, environmentally friendly Euro 3 compliant
- 2 Year unlimited Kilometer warranty

d. Trialability

If the new product can be tried out for limited period of time before an actual outlaying of money, the product adoption rates will rise substantially. Trialability reduces the consumer's perceived risk of making a purchase of the product. By letting the customer try the product before the purchase, shows the consumer the confidence enough in the product to allow them to try it before they make a purchase.

e. Observability

The observability is correlated to the trial process and it represent the extent to which a potential consumer can observe the innovation and it's positive effects. The more the positive effects are sensed, the more observable the effects are to the consumer, helping him make a purchase decision.

¹ www.vespa.com (Official website)

2.2 Major problems/resistances to product acceptance

The key to successful adoption of the new product is fully understanding of target audience needs, aspirations, and competitor perceived image in the target market. Based on this understanding, positioning the product strategy of a more elite superior product is worked out. Vespa is the classic favorite and stands alone as the embodiment of scooter style. This image was created through a significant investment of resources in creating the brand as a stylist scooter with power and performance and made with contemporary Italian design and technology.

Taking in consideration that India is the 2nd largest two wheeler market in the world² and that it has great potential for further growth, the Vespa LX 125 won't encounter major resistances in the adoption process. The entry on the Indian two wheeler segment will benefit from the popularity of the three wheeler trucks that Piaggio is producing and selling in India, therefore the new developed product will have a head start.

3. Market analysis

3.1 Target market (s)

The starting point to establish the target market is to analyze and divide the market, taking in consideration several characteristics. And based on the profile of the target, it can be established an appropriate potential market.

Market segmentation:

- ❖ *Geographic*: urban and suburban settings across the country; coastal cities as well as interior regions;
- ❖ *Behavioral/psychographic*: commuters looking for fun and stylish alternative to cars; feeling of safety, special, individuality, independence; attracted by lower fuel costs and flexible parking options; easier to maneuver in city;
- ❖ *Demographic*: young business men and women, with an age between 18–45 years, medium to high educated, belonging to middle to high class income.

3.2 Geographical region(s)

When selecting the markets for selling the new product there are several factors to take in consideration, and to put it another way – if you do not define the market, the market will define you.

The starting point is to decide if it is a generic or a niche market. And based on the psychographic and demographic profile of the target, which consists in young business men and

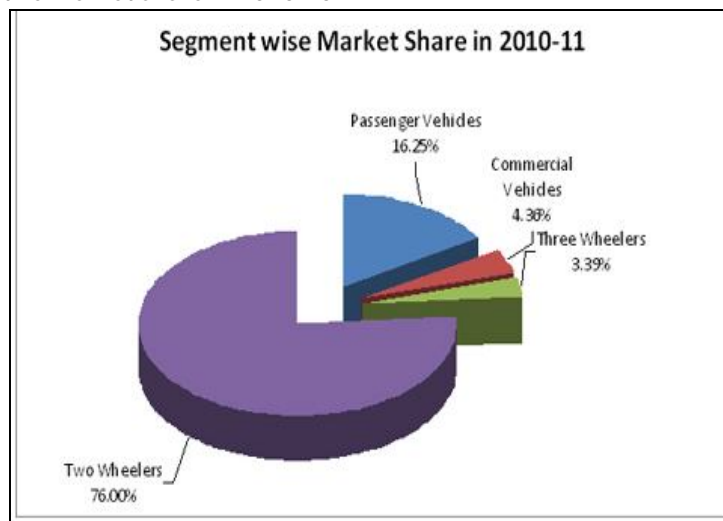
² SIAM (Society of Indian Automobile Manufacturers)

women, with an age between 18–45 years, medium to high educated, belonging to middle to high class income, characterized by combining utility with fun and style, it can be established an appropriate potential market. Potentially the customer base could be expanded to government and large corporate customers in India, following the example of Italy, where Piaggio entered an agreement with the Italian post office for the supply of € 36 m in scooters in 2006.

The more it is known about the mindset of the buyer and the more are understood their motives for buying, their desires, their fears, and their hopes the easier is to craft a targeting process to the get their attention.

The two wheeler segment in India had in 2010 a market share of 76 % of the total automotive sector, and it is dominated by important players, therefore the entry of the new Vespa LX 125 has to address to a niche segment and offer a different image and advantages than the competition. This process will benefit the Piaggio experience on the existing markets in India for the three wheeler products, but will target a different audience situated in highly populated and rich cities.

Figure 1. Automotive market share in 2010-2011



Source: Society of Indian Automobile Manufacturers (<http://www.siamindia.com/scripts/market-share.aspx>)

As a city's population increases, the traffic also swells because a large population means a larger city and more business activity, leading to more trips. Since two wheelers are more affordable to middle income Indians (which constitute a high proportion of the population) people shift from non motorized transport to two wheelers.

Listed below are the names of top ten towns that are considered the richest towns in India:

Table 1. Top ten richest cities in India, 2009

City	Description
Chandigarh	The per capita annual income of people in this city is about Rs 26710
Panaji	Has a per capita annual income of Rs 26075. The city incorporates educational institutions, government offices and major research centers like the National Institute of Oceanography in Dona Paula
Delhi	Delhi has a per capita annual income of Rs 24141
Valparai	Having a per capita annual income of Rs 23772, Valparai is growing to be an ultimate tourist destination
Greater Mumbai	Has a per capita annual income of Rs 23109
Pune	Has a per capita annual income of Rs 22817; it is considered to be a major financial hub
Ludhiana	Has an annual per capita income of Rs 22178
Chennai	Has an annual per capita income of Rs 21885; has a population of about 7.5 million and is the 4th largest metropolitan city in India. Chennai is a major industrial hub and has an influential base for the automobile, hardware manufacturing, technology and health care industries.
Shimla	Has annual per capita income of Rs 21348
Jalandhar	Has an annual per capita income of Rs 21254 and a total population of about 2 million

Source: <http://trak.in/tags/business/2009/08/19/top-10-wealthiest-cities-india/>

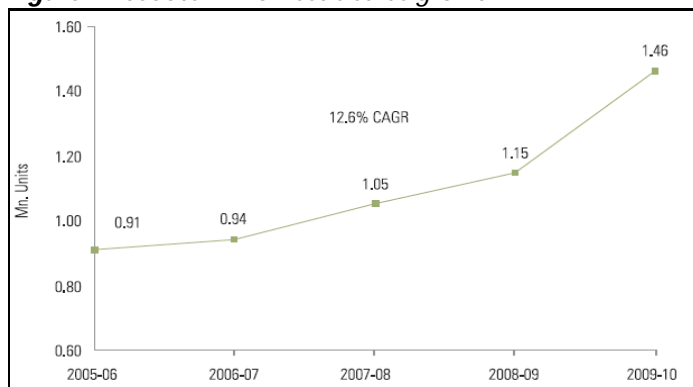
3.3 Estimated market sales for the planning year

The domestic two-wheeler industry has grown steadily at a CAGR of 8.5 per cent from 4.2 million in 2001 to 7.43 million in 2009. Of the total, the scooter segment accounted for 15% of the total market, with sales totaling 1.3 million units in 2009 and estimated average annual growth of more than 13%³. The motor vehicle industry in India underwent a sea of change during 1985-1991 when economic reforms aimed at encouraging competition were introduced. During this period, the two-wheeler industry saw the largest proliferation of brands in the consumer durables industry. From then on the rate of growth of two-wheelers increased rapidly over the next two decades⁴.

³ Research and Markets: 2010 Indian Two Wheeler Industry Report States That Domestic Demand To Grow At A CAGR of 9-10% Till 2015

⁴ Pucher, J., et al - *Urban transport crisis in India. Transport Policy*, Volume 12, 2005

Figure 2. Scooter – Domestic sales growth



Source: Society of Indian Automobile Manufacturers (<http://www.siamindia.com/scripts/domestic-sales-trend.aspx>)

The size of the Indian automotive industry is expected to grow at 13 per cent per annum over the next decade to reach around US\$ 120 billion to US\$ 159 billion by 2016. The two-wheeler segment is expected to lead the growth, with an estimated sale of 27.8 million units by 2016, and by the year 2012 the sales of light vehicles are estimated to reach US\$ 3 billion.

3.4 Consumer buying habits

➤ Product- use patterns

As of 2006, private motorized transport (mainly cars and motor scooters) accounted for a small but rapidly growing percentage of travel, about 10.–20% of all trips. The data below, from four cities Delhi, Hyderabad, Pune and Patna show a picture of how trips are distributed.

Table 2. Mode split for the work trips of various cities

City	Population Category	Bus	Car	2 W	3W	Cycle	Walk	Train	Total
Delhi	>10 million	14	17	20	10	18	4	18	100
Hyderabad	5-10 million	36	4	48	4	5	3	0	100
Pune	2-5 million	23	19	11	5	19	7	16	100
Patna	1-2 million	5	15	18	5	13	41	3	100

Source: DMRC report, RITES, 2001, BRTS Master Plan, Pune, Primary survey Patna, 2009, Hyderabad MMTS report, L&T Ramboll

All the others trips, apart from work and education, are grouped into social and recreational trips. The mode share of these trips is given in the table below.

Table 3. Mode split for the social and recreational trips of various cities

City	Population Category	Bus	Car	2 W	3W	Cycle	Walk	Train	Total
Delhi	>10 million	18	21	9	22	4	3	24	100
Hyderabad	5-10 million	50	4	26	12	2	7	0	100
Pune	2-5 million	11	15	21	23	6	14	11	100
Patna	1-2 million	14	19	15	17	15	0	20	100

Source: DMRC report, RITES, 2001, BRTS Master Plan, Pune, 2008 CMP Patna, 2009, Hyderabad MMTS report, L&T Ramboll

Public transport use for social and recreation trips is low while use of three wheelers and personalized modes like cars and two wheelers is high. This is because comfort is the first priority for social trips and cost is secondary. The data presented indicates that two wheelers mainly serve those going to work, while three wheelers are used for education, recreation and shopping.

➤ Shopping habits

Indians like to shop with their family. The buyer group is relatively price sensitive because of low income: customers may bargain and compare other offers available in the market before purchasing and the current offering does not include fundamentally differentiated products. More than half of Indians found international brands superior.⁵

Shopping habits of Indians are changing due to their growing disposable income, relative increase in the younger population, and the change in attitudes towards shopping. The emphasis has changed from price consideration to design, quality and trendiness. The desire to look and feel good is also guiding factor for customers while making their purchase decisions. Growing disposable income is also propelling demand for consumer durables and eating in restaurants among Indians. Age is also a major factor that affects the spending decisions of an individual.

The way Indian consumers are spending their money on various items has changed in recent years. The share being spent on the basis (food and beverages) has fallen from 54.07 per cent in 1992-93 to 44.8 per cent in 2002-03, and spending on transport and communication has grown at 13.2 per cent.

⁵ McKinsey Survey on Shopping habits in India, China and Brazil, June 2009

In India, the higher income group (>US\$2,465) spends more amount of their income on luxury goods and trendy products than fact moving consumer products. The middle income group (US\$1,162 – US\$1,190) spends more on consumer expendables than the rich. Combined the middle and the lower income group provide 60 per cent of the value of the Indian market.

4. SWOT Analysis

Table 4. SWOT Analysis

Strengths <ul style="list-style-type: none"> ✓ European leader on the scooter market ✓ Global brand awareness ✓ Well diversified product range ✓ Capillary distribution network ✓ Presence in promising markets (China, India, Vietnam) 	Weaknesses <ul style="list-style-type: none"> ✓ Heavy exposure to the Italian market ✓ Limited size vs. peers ✓ 45% of revenues come from the 50cc segment
Opportunities <ul style="list-style-type: none"> ✓ Expansion in emerging markets (Vietnam, India, China). ✓ Production innovation ✓ Margin recovery at Aprilia and Moto Guzzi 	Threats <ul style="list-style-type: none"> ✓ Increasing competition from low-cost competitors ✓ Weak European market ✓ Raw materials fluctuations ✓ Limited exposure to forex (natural hedging)

5. Competitor analysis

5.1 Competitor's product(s)

➤ Brand name

The Indian market is currently dominated by Hero Honda, followed by Bajaj Auto, while Suzuki, TVS Motor and Mahindra are also bit players in the market⁶.

⁶ India Brand Equity Foundation (IBEF): Profile of Indian Automotive Industry, 2009

Table 5. Main competitors

Company's name	Description	Brand
Hero Honda	Largest two-wheeler manufacturer in the world	102 cc: Pleasure scooter
Bajaj Auto	Second-largest two-wheeler manufacturer and largest three-wheeler manufacturer in India	125 cc: Platina motorcycle
TVS Motor	Third-largest two-wheeler manufacturer in India	80-100 cc: Wego, Scooty Streak, Scooty Teenz
Suzuki Motorcycle	The company started its India operations in February 2006 through this fully-owned subsidiary	125 cc: Access 125
Mahindra&Mahindra	Has recently made an entry into the two-wheeler market with the acquisition of Kinetic Motors	125 cc: Mahindra Rodeo, Duro, Flyte; 71 cc: Mahindra Kine

Source: Companies' official websites

5.2 Competitors' price

Table 6. Competitors' price

Product	Price
Pleasure scooter	Delhi: Rs 39.500 (Showroom)
Wego	Delhi: Rs 44.145 (Showroom)
Access 125	Delhi: Rs 44.154 (Showroom)
Mahindra Duro	Delhi: Rs 41.212 (Showroom)

Source: Companies' official websites

5.3 Competitors' promotion and advertising methods

Table 7. Competitors' advertising methods

Product	Advertising method
Pleasure scooter	<p><i>Print ads:</i> "Why should boys have all the fun?" (Hum bhi karen jo chaache mann?)</p> <p><i>Honda Pleasure Tv ad:</i> "Why should boys have all the fun"</p> <p><i>Campaigns:</i> "A lot less stops. A lot more go", "To a Hero Honda owner, it's a one litre road", "It's the Honda in it that makes it a Hero."</p> <p><i>Hero Honda "Campus Rock Idol"</i> - India's largest inter-college rock music competition</p> <p><i>"MTV Hero Honda Roadies"</i>- India's longest running and most popular adventure-reality show</p>

Product	Advertising method
Wego	<i>Print ads:</i> "Women on wheels" (2008) <i>Tv ads:</i> "The lips", "Cop",
Access 125	<i>Print ads:</i> "Access for all. Why wish for anything else?", "Fun for everyone", "Unlimites happiness" <i>Tv ad:</i> Suzuki Access 125. Why wish for anything else? (Sabki wish kare poori)
Mahindra Duro, Rodeo	<i>Print ad:</i> Rodeo - celebrity Kareena Kapoor, "Mahindra Duro is scooter of the year" (2010) <i>Tv ad:</i> Kareena Kapoor <i>Kareena Kapoor</i> appointed as Brand Ambassador of Mahindra's Power Scooters

5.4 Competitors' distribution channels

Dealers play a major role in serving customers, while growing and sustaining markets. Hero Honda has a network of more than 550 dealers and 3,500 service centers⁷. Over the past four years, its distribution network has grown nearly 2x compared to peers. The distribution network is fairly spread across the rural and semi-urban areas, leading to a strong growth of 23.6% in sales volumes in FY10. The rural sector contributes with 44% to Hero Honda's total sales volumes.

Bajaj Auto is restructuring its marketing and distribution network to address the different requirements of the urban and rural segments. The company has 479 dealership network into urban and rural markets.

Suzuki Motorcycle India Pvt Ltd has at this moment a large dealer network covering 203 cities all over India: East region: 28 cities, North region: 76 cities, South region: 58 cities and in the West region: 41 cities.

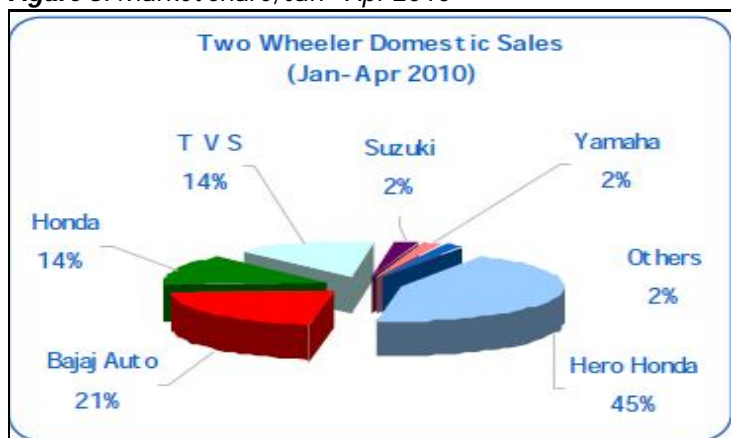
TVs Motor had in 2003 140 dealers in the West region, 160 in the North&East region and 165 in the South Region

Mahindra&Mahindra has at this moment a large dealer network covering 348 cities all over India.

The market shares of the important players on the two wheeler segment for the year 2010 are illustrated below:

⁷ Crisil Research 2010: Hero Honda Motors Ltd.

Figure 3. Market share, Jan - Apr 2010



Source: SKF India: Analyst meet 2010 – “Power of Knowledge Engineering”

6. The price

Vespa is positioned as an exclusive, expensive and high value item. Although India is an emerging country and it benefits from high growth, the average income is still considerably lower than in the other countries in which Vespa is present. Therefore, since the production is taking place in India, where costs of labour and materials are lower comparing to the other countries, the new Vespa LX 125 should be launched at a significant lower price, allowing ambitious professional women and men to enjoy the same level of quality and style for their scooter.

➤ Price determination

➤ Transportation costs

While estimating the transportation costs, it is necessary to consider the order of product that utilizes cargo space more effectively, the cargo rates and how they work, how the containers actually move along with their travels, how to go for an appropriate insurance and how to handle the order once it reaches the destination.

➤ Handling expenses

Handling costs include packaging and labor needed to prepare the order for shipment. Larger businesses can afford to assume certain costs associated with shipping and handling due to streamlined processes and economies of scale.

➤ Loading and unloading charges

Table 8. Loading and unloading charges

<i>Modality</i>	<i>Costs</i>
Trucks, vans and trailer rates	
- 11,000 pound capacity	€ 90
- 11,000 pounds - 15,000 pounds capacity	€ 105
- 15,000 – 30,000 pounds capacity	€ 175
Railcar rates	
- loading and unloading rate/wagon	€ 350

➤ **Insurance costs**

Insurance for the shipment can be purchased from the cargo company - for a relatively reasonable price. It should not be more than 5% of the total transportation cost. But, more importantly, collecting a claim from a carrier or insurance company sometimes can be a life-long event and in general, not worth the hassle.

➤ **Wholesale and retail markups and discounts**

The percentage that is added to the cost to get the wholesale/retail selling price should be our markup. The markup should be such that it is realistic and relevant to our overall profit. Discounts are a natural part of doing business. Discounting can include coupons, rebates, buying clubs, markdowns or seasonal prices. The decision of when and what type of discounting will vary greatly on the amount of competition and the stock on hand.

➤ **Company's gross margins**

Gross margin, also known as gross profit margin, shows a company how much money they made after the cost of manufacturing and selling their products is subtracted. The basic formula involves taking the amount of money a company made total over a period of time, such as a year, and then finding out how much money was spent producing and selling each item sold that year. Subtract the cost from the money earned and the company has a rough estimate of how much money they actually made for the year. Based on the previous financial statements of the company it can be established the gross margin at 40%.

➤ **Retail price**

When formulating key strategies and making decisions about product pricing for the Indian market, it is important to remember that simple conversion of euro prices to Indian rupees will not work in most cases. Also, the assumption that a latent niche market for premium products exists has often resulted in low sales volumes and negligible returns for some foreign companies. Indian consumers remain very price sensitive. If the product can be imitated easily in terms of quality and service, international pricing will not work in India because local entrepreneurs will quickly adopt the same business opportunity. Pricing decisions also have some bearing on product

packaging. Many consumer product suppliers have found it helpful to package smaller portions at reduced prices rather than "economy" sizes. While the Indian consumer will pay a little extra to ensure that they get quality and value for money, they may not be able to afford the higher prices of attractive packaging which many multinational companies have developed. Although some Indian consumers are aware of quality differences and insist on world-class products, many customers can sacrifice quality concerns for price reductions.

The average unit price is estimated based on the global average extracted from Piaggio Annual Report. Taking also in consideration that the cost for labor and capital are lower than in other countries, the retail price can be set at € 840 or Rs 55000.

➤ **Methods of payment**

In general, the manufacturer may wisely decide to decline a customer's request for open account credit if the risk is too great and propose instead payment on delivery terms through a documentary sight draft or irrevocable confirmed letter of credit or even payment in advance. On the other hand, for a fully creditworthy customer, the experienced producer may decide to allow a month or two to pay, perhaps even on open account.

7. The distribution

a. Port selection

➤ Origin port

The place from where the distribution chain begins is represented by the Manufacturing Unit at Baramati, Maharashtra, which will be extended with an investment of 30 million €, for the Vespa production, with a construction to provide up to 150,000 units/year.

➤ Destination port

The destination ports are represented by the final points of distribution and they will consist in around 70 dealerships, by the end of 2011. The Piaggio Vehicles Private Ltd has a wide spread dealer network, with over 760 dealers and service centers in India, offering a head start for the new product Vespa LX 125, specially created for the Indian market.

b. Mode selection: advantages/disadvantages of each mode

➤ Railroads

Indian Railways (IR) had in 2009 64,015 route km of rail track, therefore it offers great coverage and benefits, being the longest and fourth most heavily used system in the world. Railroads have the capacity to provide economic displacement of large quantities, on long distances and offer a frequent service. Speed is relatively low. The transit time is high, because it includes, besides the actual travel time, a period of time necessary to conduct the following

operations: loading and unloading, moving from one place to another in the railway terminals. Usually, the goods must be transported in wagon quantities, respectively sufficient to fully use the capacity of the wagon.

➤ Air carriers

So far India hasn't utilized at a maximum level its air transport network but has attracted several investments in the Indian air industry in the past few years. Although the air transport is the fastest mode of transport and therefore suitable carriage of goods over a long distance requiring less time, in this situation is not an appropriate method.

➤ Ocean carriers

The water transport has the capacity of moving large amounts of goods compared with other modes. It makes possible the use of containers for transporting high value goods, eg electrical equipment, photographic instruments, vehicles etc. An important advantage of water transport services is that for illiquid products, water transportation has the lowest cost, compared with other modes. This option can be used for distribution of Vespa in the coastal cities as well as using internal waterways.

➤ Motor carriers

India has one of the largest road networks in the world. The country's total road length in 2009⁸ was 3,320,410 km (includes 200 km of expressways). In contrast to rails, roads focus on high value goods. It is preferred, especially for moving on short distances. An advantage of road transport is the availability and accessibility. Almost every point of origin or destination is accessible because of the road network. The road provides connections between the points of reception/delivery of goods and specific facilities of other modes of transport. The transit time is a notable advantage of road transport, due to all the above this method is the most appropriate for the distribution of the new Vespa LX 125 model.

c. Packing

➤ Marking and labeling regulations

Due to different weather conditions in India, packing and labeling requirements refer to special care to prevent damage that may be caused by damp, heat, exposure to sun and rain, insects, fungus and moulds. Caution is needed when packing to protect against high humidity, dust and sand. The labeling should follow some standards like:

- ✓ Name and address of the producer;
- ✓ Generic or common name of the commodity packed;
- ✓ Net quantity in terms of standard unit of weights and measurement;
- ✓ Month and year of packing in which the commodity is manufactured and packed;

⁸ World Road Statistics 2010

- ✓ The maximum retail sales price (MRP) at which the commodity in packaged form may be sold to the end consumer. The MRP includes all taxes, freight transport charges, commission payable to dealers, and all charges towards advertising, delivery, packing, and forwarding.

- Containerization

The containerization is an important part of logistics and it uses standard ISO containers that can be loaded on container ships, railroad cars, and trucks. The purpose of containers is to secure a better protection and to increase the efficiency in product distribution.

- Costs

There are important distinctions between modes of transport in terms of costs. The road transport is, on average, seven times more expensive than rail, and rail is about four times more expensive than water transport, while air transport costs double than road transport. In general, air transport is the most expensive and the water transport, the cheapest.

- Channels of distribution

There has been a significant expansion in distribution channels in India during the past few years. The total number of retail distribution outlets in the country is estimated at over 12 million. A firm can take its products to the user through a variety of channels. It can use different types of marketing intermediaries. It can structure its channel into a single-tier or a three-tier system.

- a. *Retailers*

- Type and number of retail stores

The distribution aspects for Vespa's launch are to have around 70 dealerships by the end of 2011. The new Piaggio industrial initiative in India will also have the support of the Group's local industrial and commercial operations through the Piaggio Vehicles Private Ltd. Subsidiary. The Piaggio Vehicles Private Ltd has a wide spread dealer network, with over 760 dealers and service centers in India, offering a head start for the new product Vespa LX 125, specially created for the Indian market.

Figure 4. Piaggio's dealer network in India, 2011



Source: Piaggio Vehicles Pvt. Ltd. India (<http://piaggio.co.in/Category/our-network.aspx>)

- Retail markups for products in each type of retail store

The percentage that is added to the cost to get the retail selling price should be the markup. The markup should be such that it is realistic and relevant to the overall profit. The average markup varies between 40 % to 45 % depending on the area in which the dealer is situated.

- Methods of operation for each type

In general, the manufacturer may wisely decide to decline a customer's request for open account credit if the risk is too great and propose instead payment on delivery terms through a documentary sight draft or irrevocable confirmed letter of credit or even payment in advance. On the other hand, for a fully creditworthy customer, the experienced producer may decide to allow a month or two to pay, perhaps even on open account.

- Scale of operation

The main objective is to expand in the years to come the dealer network in order to have a greater exposure to the market and a well organized distribution throughout the country. The advantage of being a larger business relates to economies of scale.

b. Wholesale middlemen

- Type and number of wholesale middlemen

The wholesale middlemen role is taken by the Vespa manufacturer itself in relation with different companies to whom it can sell in large quantities. Potentially the customer base could be expanded to government and large corporate customers in India.

- Markup for class of products by each type

In this case the markup range is a little lower than in the case of dealership because of a greater sold volume with provides higher revenues. Therefore the markup can be established around 30 %.

- **Methods of operation for each type**
Like in the case of retail Vespa manufacturer can decide to use different forms of payment taking in consideration the risk involved.
- **Scale of operation**
Because this kind of deals is important for the company's growth because they offers higher income, the goal is to ensure as many contracts as possible.

8. Advertising and promotion

➤ **Advertising media usually used to reach the target market(s)**

Established in 1884 and listed on the Milan Stock Exchange since 2006, Piaggio is one of the world's leading manufacturers of two-wheelers and commercial vehicles. It operates in more than 50 nations in Europe, Asia and the Americas. Piaggio Vespa represents an expensive, high involvement product with a high perceived differentiation of its brand. Without an efficient advertising strategy Piaggio's products would have had such a huge success.

Table 9. Advertising instruments used for brand promotion

Advertising instruments/media	Description/examples
Tv	<i>Tv commercials</i> <i>Movies and Tv series: "Roman Holiday" (1960), "Over the edge " (2006), etc.</i>
Online	<i>Official web site: www.vespa.com</i> <i>Country personalized web sites</i> <i>Other sites: news, forums, chats, shopping</i>
Radio	<i>Pandora Radio (USA),</i>
Print	<i>Piaggio Corkscrew, Vietnam, 2002; Piaggio: Tilting Doll, Israel, 2010; Piaggio: Big Ben, United Arab Emirates, 2007; Piaggio: Boxing, Italy, 2002, Piaggio: Behind, Philippines, 2009</i>
Outdoor billboards	<i>Situated on highly circulated streets of the main cities</i>
Brochures	<i>Country personalized (language, products, prices, dealers)</i>
Games	<i>Vespa GP 2008 Tokyo</i>
Contests	<i>Vespa USA photo contest 2011, Vespa Get Smart, USA 2008</i>

Advertising instruments/media	Description/examples
Symbolic gifts	<i>Sunglasses, bags, jackets, t-shirts, caps, mugs, memory sticks, magnets, clocks,</i>
Show rooms	<i>Manchester, Mumbai, Salt Lake, Delhi, Ho Chi Minh, Pontedera</i>
Press conference	<i>Maintaining relations between the company and clients; announcing future plans</i>
Publications	<i>Wide Paiggio magazine</i>
Celebrity branding	<i>Audrey Hepburn, Jennifer Lopez, Lisa Rogers, Christie Brinkley, Uma Thurman, Hugh Jackman, Owen Wilson, etc.</i>

➤ **Sales promotions customarily used**

Sales promotions focus on business to business marketing, trying to secure supply contracts with major corporates or local government institutions. Vespa offers to its customers scooter apparel and other symbolic gifts. This has the triple benefit of compensating the intangibility of the service provided, endorsing Vespa brand and promoting the collateral sale of Vespa accessories and apparel.

➤ **Promotion mix**

a. Advertising

➤ **Objectives**

Marketing objectives:

- Launching the new Vespa LX 125 model on the Indian market
- Selling 10.000 units in the first 6 months

Communication objectives:

- Arouse brand awareness among the targeted market
- Product differentiation by image building
- Convince the audience to purchase the product

➤ **Media mix**

Practically every aspect of media is available for advertising, from print to outdoor advertising to satellite channels to movie theaters. Advertising in print continues to hold the largest share. Both print and TV dominate the advertising market with a combined share of 88%. The surprise feature in 2008 is internet advertising, which has grown at 45% and to \$75.6 million.

The advertising campaign's proposal is based on the unique selling characteristics of the product, which will be highlighted in promotional messages to be transmitted to the target market. The characteristics of the new Vespa LX 125 model, designed to spark consumers'

interest, are design and style, performance and low consumption. As a result, the techniques and promotional messages will be adapted to these characteristics. There are going to be used the following set of promotion instruments: print media, radio, street billboards, brochures, online banners and ads, and sales promotions through promotional launch price and free test (test - drive).

Table 10. Media mix

Advertising techniques	Description
Print media	Company's magazine: <i>Wide Piaggio magazine</i> Magazines (glossy, monthly), newspapers (national broadsheet) Customized ads ½ Page horizontal spread
Radio	No. 1 Radio: All India Radio has 231 stations Cheap advertising environment High coverage 15 seconds ad during the morning
Outdoor media	On vehicles advertisements Billboards High exposure
Online promotion	Social media: facebook, twitter, flickr Official website (www.piaggio.co.in) Banners and ads

➤ **Message**

The main slogan of the advertising campaign is Vespa 3F: fun, fashion, freedom, because Vespa is not just a scooter, is a way of life.

Fun:

- ✓ Ride your buddy
- ✓ Solo adventure, group ride or Vespa rally

Fashion:

- ✓ Design
- ✓ Trend and style
- ✓ Customization

Freedom:

- ✓ Escape traffic congestion
- ✓ Less worry about money, time, parking and global warming

➤ **Costs**

Campaign budgeting is done according to set objectives and tasks, taking into account a number of general factors, such as:

- ✓ life cycle stage: given the fact that the Vespa LX 125 model, is now in the launching stage on the Indian market, advertising costs will be higher;
- ✓ market share: because the Piaggio Group is already present in India, from this point the costs will be lower;
- ✓ level of competition: although there is competition on the market, the Vespa LX 125 model differs in design, style and performance, so costs will not be very large;
- ✓ number of broadcasts: the advertising budget size increases as the number of broadcasts of promotional messages increases.

The estimated advertising budget is around € 250.000 for a period of 6 months.

b. Sales promotions

➤ **Objectives**

Sales promotion includes several communications activities that attempt to provide added value or incentives to consumers, wholesalers, retailers, or other organizational customers to stimulate immediate sales. These efforts can attempt to stimulate product interest, trial, or purchase.

➤ **Contests**

Vespa will organize a contest "Share your experience and win a Vespa LX 125", based on video posting on a special platform, showing why would the customers like to ride a scooter. The winners will be decided on the number of votes and popularity of their materials. Promoting this activity will be based on the online environment, benefiting the feed viral distribution.

➤ **Premiums**

The top 1000 contestants will win Vespa t-shirts, the top 100 will win customized Vespa t-shirts and 1st place will win the new Vespa LX 125 model.

➤ **Costs**

The average cost of this method is around € 10.000.

c. Personal selling

The attributes of personal selling are correlated to dealers' network and intermediaries who will have the role of actual closing the deal. They play an important part in the marketing and selling the products to the final customer. Therefore they have different responsibilities:

- ✓ Prospecting - trying to find new customers;
- ✓ Communicating - with existing and potential customers about the product range;
- ✓ Selling - contact with the customer, answering questions and trying to close the sale;
- ✓ Servicing - providing support and service to the customer in the period up to delivery and also post-sale;
- ✓ Information gathering - obtaining information about the market to feedback into the marketing planning process;
- ✓ Allocating- in times of product shortage, the sales force may have the power to decide how available stocks are allocated.

d. Other promotional methods

In the advertising process it can be used other several methods like public relations, which have the role of maintaining a good image of the product in the view of the customers through press conferences, news, open image, celebrity endorsements, using a popular figure promoting the product might induce a favorable purchasing impulse on the market.

9. Marketing objectives

➤ Sales forecast years 1-5

The forecasting of sales is one of the most important information tools for every management.

Table 11. Sales forecast 2012-2016

Year	Sales forecast	
	€ million	units
2012 (I)	25.2	30000
2013 (II)	38	45200
2014 (III)	52	61900
2015 (IV)	70*	83000
2016 (V)	90	107000

* Expected sales by 2015, Piaggio Group Strategic Plan 2009-2012

➤ **Pro forma financial statements and budgets**

Table 12. Marketing budget

<i>Category</i>	<i>Value (2012), thousands of euro</i>
Selling expense	4103 (18 % of total cost)
Advertising/promotion expense	
- Advertising	250
- Sales promotion	10
Distribution expense	4331 (19 % of total cost)
Product costs	13677 (60 % of total cost)
Other costs	425
Total cost	22796

Table 13. Pro forma annual profit and loss statement (1-5 years)

<i>Thousands of euro</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Total sales revenue	25200	38000	52000	70000	90000
Total cost of sales	18953	32450	44560	52324	68520
Gross profit	6767	5550	7440	17676	21480
Advertising	260	120	145	180	140
Selling expense	4103	4200	3840	4100	4350
Total operating expenses	4363	4320	3985	4280	4490
Income from operations	2404	1230	3455	13396	16990
Taxes	2735	1325	3652	7520	8570
Net profit	-331	-95	-197	5876	8420

➤ **Resource requirements**

a. **Finances**

The overall investment in the strategic plan of Piaggio Group of introducing the Vespa LX 125 on the Indian market is estimated at € 30 million, in financial years 2010 and 2011, with the goal of achieving revenues of approximately 70 million euro in 2015 – when investment payback is projected – on sales of approximately 110,000 scooters. The investment is covered by the programs drawn up under the Three-Year Plan approved by the Group Board of Directors on 2 July 2009.

b. Personnel

The Piaggio Vehicles PVT. LTD. India employs over 2100 people and is acknowledged as the pace setter in technologically advanced and highly dependable transportation solutions. The objective is to increase the number of employees directly involved in the production by 20 % over the next year.

c. Production capacity

The Manufacturing Unit at Baramati, Maharashtra is working to capacity producing small commercial vehicles for India and select international markets. It rolls out 834 vehicles every day. The strategic plan approved by the Piaggio Board of Directors provides for the construction of a new facility in India to produce up to 150,000 units/year⁹ in order to sell the new Vespa LX 125.

⁹ Piaggio Group Strategic Plan 2009-2012

Sources of information

1. Crisil Research 2010: Hero Honda Motors Ltd.
2. DMRC report, RITES, 2001, BRTS Master Plan, Pune, Primary survey Patna, 2009, Hyderabad MMTS report, L&T Ramboll
3. Hinkelman, E. G. - Dictionary of international trade, World Trade Press, 2005
4. *India Brand Equity Foundation (IBEF): Profile of Indian Automotive Industry*, 2009
5. Indian Economic Survey 2010-2011
6. Innovative Transport Solutions (iTrans) Pvt. Ltd., TBIU, IIT Delhi, New Delhi - Two and Three Wheelers in India Report 2009
7. Johnson, T. E, Bade, D. L. - Export/Import Procedures and Documentation, Amacom Div American Mgmt Assn, 2010
8. Mohan, D., et al - Road safety in India: Challenges and opportunities, University of Michigan, Transport Research Institute, 2009
9. McKinsey Survey on Shopping habits in India, China and Brazil, June 2009
10. Research and Markets: 2010 Indian Two Wheeler Industry Report States That Domestic Demand To Grow At A CAGR of 9-10% Till 2015
11. Piaggio Group Strategic Plan 2010-2011
12. Pucher, J., et al - Urban Transport Crisis in India. Transport Policy, Volume 12, 2005
13. SKF India: Analyst meet 2010 – “Power of Knowledge Engineering”
14. SIAM (Society of Indian Automobile Manufacturers)
15. Wood D. F. – International logistics, Amacom Div American Mgmt Assn, 2002
16. World Road Statistics 2010

www.vespa.com
www.herohonda.com
www.bajajauto.com
www.tvsmotor.in
www.suzukimotorcycle.co.in
www.mahindra.com

List of Tables

- Table 1. Top ten richest cities in India, 2009*
Table 2. Mode split for the work trips of various cities
Table 3. Mode split for the social and recreational trips of various cities
Table 4. SWOT Analysis
Table 5. Main competitors
Table 6. Competitors' price
Table 7. Competitors' advertising methods

Table 8. Loading and unloading charges

Table 9. Advertising instruments used for brand promotion

Table 10. Media mix

Table 11. Sales forecast 2012-2016

Table 12. Marketing budget

Table 13. Pro forma annual profit and loss statement (1-5 years)

List of Figures

Figure 1. Automotive market share in 2010-2011

Figure 2. Scooter – Domestic sales growth

Figure 3. Market share, Jan - Apr 2010

Figure 4. Piaggio's dealer network in India, 2011