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# UNIT 1 INTRODUCTION TO SERVICE SECTOR

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## 1.1 INTRODUCTION

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In this unit, you shall study about the growth of service sector followed by the growth of automobile industry, two-wheeler industry and Hero Honda Motors Limited in particular. After reading this unit, you will have a brief knowledge about whole scenario of automobile service sector.

### Objectives

After studying this unit, you should be able to

- discuss the scope and extent of service industry,
- describe the phases of two wheeler industry growth, and
- visualise the future of a motorcycle technician.

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## 1.2 SERVICE INDUSTRY GROWTH

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The service industry is growing very fast in today's world market scenario. In Indian context, we can see the impact of service sector growth upon (GDP) growth rate. India's GDP growth rate our Gross Domestic Product has been transformed from lower single digit to higher single digit over the last few decades. The rise in the GDP growth rate is mainly attributable to growth of the service sector. The high and spectacular growth potential offered by the sector is what makes investment in the service sector a promising proposition. The Indian services sector has grown at 7.5% annually since 1990, which has proven to be the main factor behind acceleration of the overall Indian GDP growth. Given the presence of the following factors, it is expected that the service sector will maintain or improve on this growth momentum. In the recent past services sector has become out of the major contributors of taxes to the Government of India.

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## 1.3 AUTOMOBILES INDUSTRY GROWTH

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The Indian automobile industry has a significant labour cost advantage. India's automotive sector has the world's second largest pool of skilled labour.

Following points show the growth of our automobile sector.

- (a) High growth has been observed since 2001-02 in automobile production. Annual growth was 16.0 percent in April-December, 2004; the growth rate in 2003-04 was 15.1 percent (Table 1.1). Consequent to liberalization, the arrival of new and contemporary models, easy availability of finance at relatively low rate of interest and price discounts offered by the dealers and manufacturers appear to have stimulated the demand for vehicles and a strong growth of the industry. The automobile industry grew at a Compound Annual Growth Rate (CAGR) of 22 percent between 1992 and 1997. With investment exceeding Rs. 50,000 crore, the turnover of the automobile industry exceeded Rs. 59,518 crore in 2002-03. Including turnover of the auto-component sector, the automotive industry's turnover, which was about Rs. 84,000 crore in 2002-03, has been estimated to have exceeded Rs.1,00,000 crore in 2003-04.
- (b) The progressive liberalization of the norms for foreign investment and import of technology appear to have benefited the automobile sector with production of total vehicles increasing from 4.2 million in 1998-99 to 7.3 million in 2003-04. It is likely that the production of such vehicles will exceed 10 million in the next couple of years. The global standards achieved by the industry have resulted in the increased export. After a temporary slump during 1998-99 and 1999-00, such exports registered robust growth rates of well over 50 percent in 2002-03 and 2003-04 each to exceed two and-half times the export figure for 2001-02 (Table 1.2). Growth of exports of 32.8 percent in the first three quarters of 2004-05 augurs well for the years to come.
- (c) Contrary to the misconception that the growth in automobile industry has catered only to the higher income-stratum of society by producing mostly passenger cars, the fastest growth in volumes has come from commercial vehicles. Between 1998-99 and 2003-04, output of such vehicles has grown 2.8 times compared to the 2.2 times increase in passenger cars. Furthermore, two-wheeler output continues to dominate the volume statistics of the sector. In 2003-04, for every passenger car turned out by the sector, there were 7 two-wheelers produced. In the two-wheeler segment, there is a greater preference for motorcycles followed by scooters, with both production and domestic sales of motorcycles increasing at faster rates than for scooters. However, mopeds have registered low or negative growth. Export growth rates have been high both for motorcycles and scooters.
- (d) Sales incentives, introduction of new models as well as variants coupled with easy availability of low cost finance with comfortable repayment options continues to drive demand and sales of automobiles. The risk of an increase in the interest rates, the impact of delayed monsoons on rural demand, and increase in the costs of inputs such as steel are the key concerns for the players in the industry. As the players continue to introduce new models and variants, the competition is expected to intensify further. The ability of the players to contain costs, focus on exports and reliable after sales service will be critical for the performance of automobile companies.
- (e) The auto component sector has also posted significant growth of 20 percent in 2003-04, and achieved a sales turnover of Rs. 30,640 crore (US\$ 6.7 billion). Further, there is a potential for higher growth due to outsourcing activities by global automobiles giants. Today, this sector has emerged as another sunrise sector like computer software industry.

**Table 1.1 : Automobile Production (Numbers)**

Category/Year	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05*
Passenger Car	390,709	577,243	513,415	564,052	608,851	842,437	699,082
Multi Utility Vehicles	113,328	24,307	127,519	105,667	114,479	146,103	178,187
Commercial Vehicles	135,891	173,521	156,706	162,508	203,697	275,224	247,797
Two Wheelers	3,374,508	3,778,011	3,758,518	4,271,327	5,076,221	5,624,950	4,758,639
Three Wheelers	209,033	205,543	203,234	212,748	276,719	340,729	271,983
Total	4,223,469	4,858,625	4,759,392	5,316,302	6,279,967	7,229,443	6,155,688
Percentage Growth	5.4	15.0	-2.0	11.7	18.1	15.1	16.0

\* Figures relate to period April-December, 2004, i.e. nine months and not the whole year.

**Source :** Ministry of Heavy Industry and Public Enterprises (Department of Heavy Industry).

**Table 1.2 : Automobile Export (Numbers)**

Category	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05*
Passenger Car	25,468	23,271	22,990	50,088	70,828	126,249	121,478
Multi Utility Vehicles	2,654	5,148	4,122	3,077	1,177	3,067	3,892
Commercial Vehicles	10,108	9,912	13,770	11,870	12,255	17,227	9,931
Two Wheelers	100,002	83,237	111,138	104,183	179,682	264,669	256,765
Three Wheelers	21,138	18,388	16,263	15,462	43,366	68,138	51,535
Total	159,370	139,956	168,283	184,680	307,308	479,350	453,601
Percentage Growth	- 16.6	- 12.2	20.2	9.7	66.4	56.0	32.8

\* Figures relate to period April-December, 2004, i.e. nine months and not the whole year.

**Source :** Ministry of Heavy Industry and Public Enterprises (Department of Heavy Industry).

## 1.4 TWO WHEELER INDUSTRY GROWTH

India represents one of the largest two wheeler markets in the world with an estimated size of 5.4 million units a year. Two wheelers are used extensively in our country, both at rural and semi-urban level. Over the last five years the two wheeler market in India has grown at a CAGR of 10 percent and is projected to maintain this robust growth rate in the future as well. Motorcycle comprises approximately 78 percent of the two-wheeler market, with the remaining 22 percent being shared between scooters and mopeds.

India can be said to be the capital of Asia in respect of the two wheelers with an average of 27 two wheelers per thousand people compared to China's 8 two wheelers per thousand people (**Source :** World Bank). In terms of two wheeler production, India is the second (next to China) largest manufacturing industry in the world. Our two-wheeler segment has grown over 3 times the during past 10 years. During year 2002-2003 domestic sales was 5.1 million, in year 2003-2004 it was around 5.2-5.4 million.

The Indian two-wheeler market is oligopolistic (a small group of people having control of affairs) in nature with the top three companies accounting for over 80% of the total industry sales. Hero Honda Motors Limited, a joint venture between Honda Motors, Japan and the Indian-based Hero Group, is the largest manufacturer of two wheelers in the world with around 38% market share of the current domestic two wheeler market. Bajaj Auto is the second largest player in the two-wheeler market with 22.3 percent share. TVS motor company is the third largest manufacturer of two-wheeler with 20.9 percent of market share in India.

Under the category of two wheeler vehicles itself, customer gives preference to 4-stroke engines (higher fuel efficiency) as against 2-stroke engines.

## **1.5 GROWTH OF HERO HONDA MOTORS LIMITED**

Hero Honda Motors Limited (HHML) is incorporated as a joint venture between the Hero Group of industries, India and Honda Motors Company, Japan. The production started in 1985 and the first motorcycle manufactured by HHML was named "Hero Honda CD 100". Since 1985, it is growing exponentially and has launched many variants (models) into market. Now HHML is a world leader in two wheeler segment. The shares, of Hero Honda Motorcycle Limited are divided into three groups. The Hero Group of Industries has 26%, public (equity of the company) holds 48% and Honda Motors Company Japan has 26% shares.

The following companies come under the Hero Group :

<b>Name of the Company</b>	<b>Location</b>
• Hero Cycles	(Ludhiana)
• Rockman Cycle Industries Limited	(Ludhiana)
• Highway Cycles Industries Limited	(Ludhiana)
• Majestic Auto Limited	(Ludhiana)
• Munjal Castings	(Ludhiana)
• Hero Honda Motors Limited	(New Delhi)
• Munjal Showa Limited	(Gurgaon)
• Sunbeam Castings	(Gurgaon)
• Gujarat Cycles	(Baroda)
• Hero Motors	(Ghaziabad)
• Hero Cold Rolling Division	(Ludhiana)
• Hero Honda Finlease	(New Delhi)
• Hero Corporate Services	(New Delhi)

Hero Group produces the following consumer items :

- |                           |                         |
|---------------------------|-------------------------|
| (a) Motorcycles           | (b) Light motorcycles   |
| (c) Mopeds                | (d) Bicycles            |
| (e) Automotive components | (f) Industrial supplies |
| (g) Fitness equipments    |                         |

In two-wheeler manufacturing segment, it manufactures the following models :

- |                    |                   |
|--------------------|-------------------|
| (a) CD-Dawn/Deluxe | (b) Passion Plus  |
| (c) Achiever       | (d) Karizma       |
| (e) Glamour FI     | (f) Splendor Plus |
| (g) Super Splendor |                   |

### Sales Performance of Hero Honda Motors Limited

The following histogram shows (Figure 1.1) approximate sales figures (in lacs/year) of Hero Honda Motors Limited. These sales figures indicate that very high potential for employment/self employment will be available in market for technicians of Hero Honda Motorcycle.

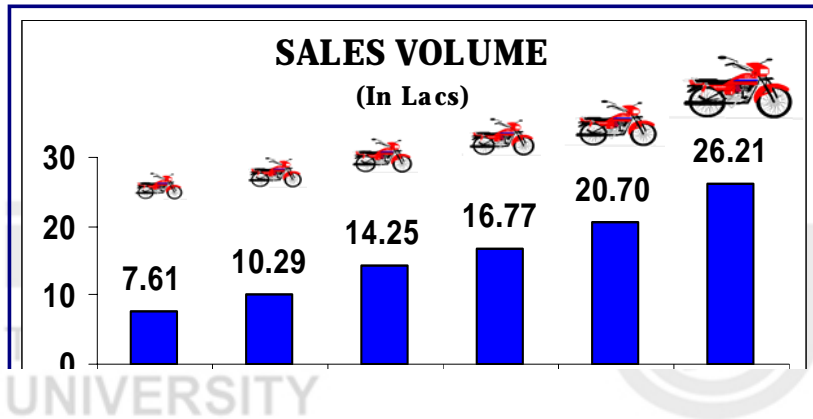


Figure 1.1: Sales Volume per Year

The histogram in Figure 1.2 shows the annual turnover of HHML.

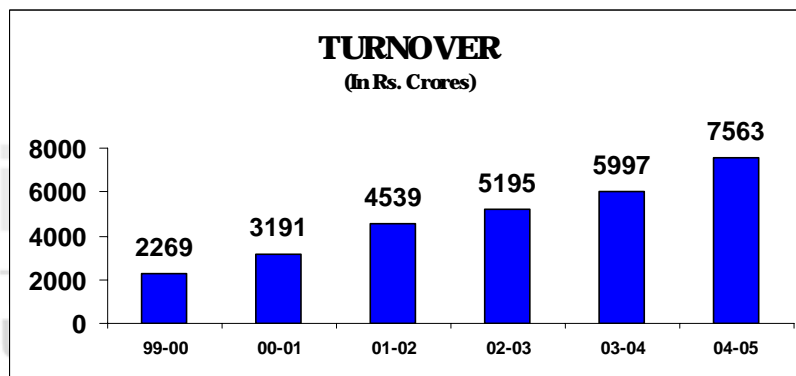


Figure 1.2 : Turnover of HHML Per Year

The market share of different two-wheeler manufacturers are shown in Figure 1.3. From this figure, it can be seen that HHML is leader in the industry.

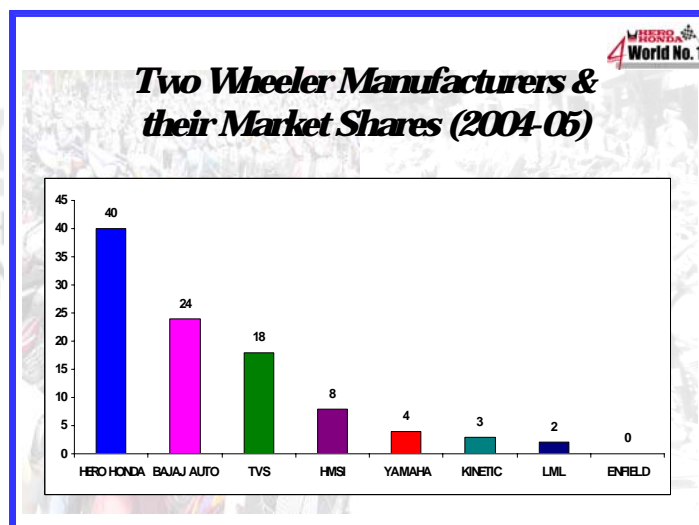


Figure 1.3 : Market Shares of Two Wheeler Manufacturer in India during 2004-2005

## SAQ 1



- (a) What are the future prospects of a motorcycle technician.
- (b) Write your views regarding the service sector growth of
  - (i) Automobile industry,
  - (ii) Two wheeler industry, and
  - (iii) Hero Honda Motors Ltd.

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### 1.6 SUMMARY

In this unit, you have studied about the growth of automobile and two-wheeler sectors. After the study of this unit, you can judge your employability in this sector.

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### 1.7 ANSWERS TO SAQs

Refer the relevant preceding text in the unit or other useful books/manuals available on the topic at workshops to get the answers of the SAQs.