



International Marketing Strategies for Lifan Group

A Case Study of the UK Market

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MA IMM Oct 2007
Business School, Bournemouth University
November 2007

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1. Introduction

Lifan Group, a Chinese private owned enterprise with a total of 12,000 employees and an annual turnover of US\$900 million (until 2006, Lifan official website), is looking to expand its business internationally. The main products of Lifan Group are its branded motorcycles and motorcycle engines, along with Lifan cars and other household goods such as anti-theft doors, sport shoes, agricultural machines etc. (Lifan official website).

1.1 The Purposes and the Structure of the Report

There are two purposes for this report: first to identify and examine all the main factors that need to be considered by Lifan Group for its international expansion and second to study the cultural differences between Western Europe and China and provide possible solutions for Lifan to overcome those differences. In order to do so, this report will divide into four parts in the following sections: it starts with an overview of the general marketing environment of a selecting country, followed by a competitive analysis. Then move on to look at how Lifan overcomes the cultural differences if they decided to enter that particular market with the conclusion as a result of this analysis.

1.2 Focus Group

This report will use the United Kingdom (UK) as a possible target market for Lifan's famous motorcycle products, and assess all advantages and disadvantages of entering the British market.

1.3 Why Motorcycles?

There are two reasons:

- Lifan's motorcycle range is a well established product line, and has a good reputation for its quality and price in the Far Eastern Market. It was the first Chinese motorcycle brand to be sold in Japan back in 2001. (Lifan official website) Thus Lifan motorcycle has a competitive advantage over other Lifan products.
- The rising costs of fuel and increasing environmental awareness are forcing many consumers in the UK to find an alternative form of transport. Therefore motorcycles and smaller-engined, more fuel efficient vehicles could be an answer.

1.4 Defining Motorcycle

In this report, "motorcycles" refers to motorbikes, scooters and mopeds.

2. Macro Marketing-Environment in the UK

Business is operating within an economic political and social institutional framework. Therefore we cannot analyse the individual market without understanding the macro business environment at first. Thus this section is aiming to identify and assess all the variable factors that might in turn affect the performance of the business at macro level.

Over the years, marketing theorists (e.g Keegan & Schlegelmilch, 2001 etc) have developed a number of checklists as a way of cataloguing the vast numbers of possible issues that are likely to have an impact on the industry. To summarise, they are: economic conditions, Political legal and regulatory environment, population demographics, social values and lifestyles and technology. (Keegan 1999 & Keegan & Schlegelmilch, 2001) This section will scan each of those factors in the context of UK market and a general recommendation will be based on the outcome of this assessment. Let's start with the general economic conditions.

2.1 Macroeconomic Conditions

Macroeconomics is to study the issues (such as national income, inflation, interest rates and unemployment) that are affecting the performance and behaviour of a national economy as a whole. (Lipsey & Chrystal 1999, 335) This is because the economy tends to fluctuate over the period of time. For example, during a recession, many businesses go bust, in contrast to an economic boom where demands for most products and services tend to rise, meaning profits rise too and most businesses are find it easy to expand. (Lipsey & Chrystal 1999, 336) Understanding overall economic performance helps Lifan to decide when is the best time to move in and out of the potential market, and when to expand or reduce its business capacity there.

UK Economy General Facts

- A market based economic system, a member state of European Union (EU)
- One of the largest economies in the world. For 2006, it ranked sixth in term of total GDP PPP by World Bank (2007)
- One of the wealthiest countries. For 2006, it ranked eleventh in term of GDP PPP Per Capital with an average of US\$ 35, 486 per head per year (International Monetary Fund, 2007)
- Sustained economic growth over the last a decade (average annual GDP growth rate 2%) with low inflation (average 2%), interest (average 4%) and unemployment rates. (3%) (CIA, 2007)

Advantages:

- National income in the UK is among the top in the world, with an EU membership, it will be easier for overseas companies such as Lifan to expand into other EU member states in the future if they wish. And the economy is currently going through a booming period, thus it is a right time to move in for Lifan providing UK market matches other conditions.
- Strength of the pound means imports to the UK are cheap for UK customers
- A good UK banking services

Disadvantages:

- A well developed market structure and high degree of business competition might mean the difficulties for new entrant to access the existing market. The economic outlook remains a question, and need to study more.

Verdict:

- Despite some disadvantages and future uncertainties, economically speaking, UK as a market certainly cannot be ignored by Lifan, who could consider a need to move in as quickly as possible while the economy is still going through its peak.

2.2 Political Legal and Regulatory Environment

Every country has its own unique political legal and regulatory system that in some way impacts on business activities. (Keegan & Schlegelmilch 2001, 109) For example in the UK, different political parties have different taxation policies that directly affect company's profitability.

UK Political Legal and Regulatory Environment

- A constitutional monarchy, in which the Prime Minister (PM) is the head of the government, and has the executive power; legislative power is vested both the government and two chambers of the parliament: House of Commons and the House of Lords. Judiciary is an independent executive of the law.
- A multi-party parliamentary democracy, general elections must take place at least once every 5 years (though the exact date is decided by the PM), the party who win the majority seats in the House of Commons form the government.
- Scotland, Wales and Northern Ireland all have their own powers in deciding some of their internal affairs
- Labour is the current ruling party, has been in power for ten years now, the next election is likely to be between 2009 and 2010

Advantages

- Lowest Corporation Tax Rates among G7 countries. (current rate is 30% decreased from 33% conservative government, in comparison with 36.4% in France, 39.3% in the USA and 40.9% in Japan etc) (Devereux et al 2004, 4)
- Flexibility in the Labour law (allowing companies to offer temporary part time basis contract)
- UK Law is protecting registered patents and trademarks

Disadvantages

- UK labour forces is very costly (the government has set the national minimum wage at £5.25 per hour, this may raise even further)
- The possibility of a changing government in the next general election. The Conservative party's attitude towards foreign direct investment needs more research
- EU Law that overrides UK law on the Motor industry is also a problem (Mintel 2006)

Verdict

- UK has a relatively stable political environment, a well established legal system, and current the government does actively encourage foreign direct investment by introducing and implementing several legislations such as labour law. Despite labour costs and possibility of changing government in the next two years, it is still worthwhile for Lifan to consider investment in the UK.

2.3 Population Demographics

It is also important to know the size of the market and its characteristics such as age, gender, and income in our destination. By knowing these, it helps Lifan to estimate the market demand in the later part of the report.

UK Population & Characteristics

- A total population of 60 millions
- Population growth rate: 0.275% per year
- Age structure:

0-14 years: 17.2% (male 5,349,053 males/female 5,095,837)

15-64 years: 67% (male 20,605,031/female 20,104,313)

65 years and over: 15.8%

(Source: CIA 2007)

- Legal age for riding a motorbike: 16 years (for scooters), 17 years (for motorbikes) and over and need to get licence (DVLA)
- Average income: US\$ 35, 486 per head per year (International Monetary Fund, 2007)

- The percentage of highly educated population: 41% (Department of Innovation, Universities and Skills 2007)

Advantages

- Study (Anon 2006) has shown that majority of motorcycle buyers were male single and aged between 16-40, therefore UK has a relatively large potential customer base
- Good quality of labour supply

Disadvantage

- With such high annual personal income, the motorcycle has to compete with automobile and other recreational vehicles like jetskis.

Verdict

- With the size, income and educational background, UK certainly has the potential for Lifan to launch its motorbike products.

2.4 Social Values and Lifestyles

Social values and lifestyles are part of the culture studies; together they shape the human behaviour and the way of their lives. (Keegan & Schlegelmilch 2001, 100) As the result they have an impact on the business too: affecting consumer's attitudes towards its products. Therefore we need to study them.

UK Social Values and Lifestyles on Motorcycles

- Love small and economical (Anon, 2006)
- To use it as a mode of short distance transport (Anon, 2006)

Advantage

- UK consumers' attitudes towards motorcycles are matching Lifan's product profile: good quality, low price, cheap to run and very practical.

Verdict

- With such consumer attitudes, there is no reason for Lifan not to launch its motorcycle products to the UK

Technology

We are living in a fast changing environment due to the development of modern technologies. Communications and travel are now viewed on a global scale., and will have a significant impact on Lifan's business.

Characteristics

- The falling costs of communication and transportation
- The development of e-commerce

Implications

- Help Lifan to launch its products in the UK
- Provide opportunities to develop new business models such as e-business (Liu 2005)

2.5 Conclusion

Based on above analysis, we can conclude that UK's currently macro-environment is relatively good for Lifan. Now we can move on to study its micro environment.

3. Micro Marketing-Environment in the UK

A micro study is to analyse how individuals seek to satisfy their needs and wants by looking at factors such as the demand, supply and distribution of goods and services within a society. A market price is set when quantity of good or service that demanded equals the quantity that supplied. (Lipsey & Chrystal 1999) Based on this reason, it is important to estimate what the total market demand is for Lifan motorcycle from the start. In total, economists summarised seven variables that somewhat influence the degree of quantity demand of each product: 1. the price of the product; 2. the prices of other similar products; 3. the consumer's income and wealth; 4. various sociological factors; 5. the consumer's taste; 6. forces outside human control such as weather; 7. the consumer populations (Lipsey & Chrystal 1999, 36) Without setting out price of Lifan products before hand, this section will look at above factors in order to form a sort of marketing strategy for Lifan.

3.1 Market Competitors

Competition has a direct effect on the rates of return in the investment capitals. When competition is high, it will drive down the return rates and result in firms to withdraw from the industry and lower the level of competitiveness similarly when the competition is low, it will increase the return rates and attract more firms to enter the industry and push up the competitive activities. (Lipsey & Chrystal 1999) Therefore it is important to know who are the competitors and identify their strengths.

Latest registration figures from MCIA (see appendix: UK New Motorcycle Registration Statistics Between 1st October 2007 and 30th October 2007) show that almost all the major motor manufacturers have a present in the UK market. Top brands are:

- Honda: a dominant position in all ranges. The most popular entry brand Honda CG 125: £1,999 (2005). Distribution channels: 146 solus dealers (2005)
- Suzuki: a leader in sporty and larger capacity motorbikes. The entry brand Marauder 125: £1,999 (2005). Distribution channels: a mixture of 172 solus and multi-franchise dealers (2005)
- Piaggio: a market leader in the scooter sector. The entry brand Zip 50: £1,099 (2005)
- Yamaha: smaller than Suzuki in terms of market share, its strength is in the sports/touring sectors. The entry brand Legal YBR: £1,999 (2005)
- Kawasaki: held a strong position across all range over 125cc. Distribution channel: a mixture of 88 solus and multi-franchise dealers (2005)
- Three (Peugeot): a market leader in the scooters and moped sectors. The entry brand Ludix: £899 Distribution channels: a mixture of 218 solus and multi-franchise dealers (2005)
- Triumph: the last remaining British branded with a mixture of 218 solus and multi-franchise dealers (2005)
- BMW: a market leader in touring and sport sectors is distributing through a mixture of solus car and motorcycle dealerships.

(Source Mintel 2006)

Implications

- UK motorcycle market is dominant by almost all the major motor brands in all ranges; price goes from £899 (Ludix, 2005) up to thousands. Therefore it is a competitive market.

3.2 Buyers

Table 1 UK Motorcycle Ownership by Engine Capacity and Type

	2001	2003	2005	% Change
Scooter/Moped	0.7	0.8	0.8	+0.1
51-125 cc	0.6	0.6	0.5	-0.1
126-500cc	0.6	0.7	0.7	+0.1
501-750cc	0.8	0.8	0.7	-0.1
750 or more	0.8	0.7	0.9	+0.1

Source: TGI Survey quoted in Mintel 2006

Table 2 UK Total Motorcycle Ownership (Against Total Population)

	2001	2003	2005
Motorcycle Ownership (%)	3.5	3.6	3.6

Source: TGI Survey quoted in Mintel 2006

- Table 1-2 shows that the ownership of motorcycles in the UK population is low
- But overall market growth is high (see appendix: UK New Motorcycle Registration Statistics Between 1st October 2007 and 30th October 2007)
- The popular types of motorcycles are entry model (scooters and mopeds), middle range (126-500cc) and high range (750cc and more) models, anything in between is not popular.
- Mintel report (2006) has also found a tendency towards southern bias to the ownership of motorcycles, except London; higher proportion of ownership for households that do not have a car or have multiple cars.
- The sales of motorcycles in the UK are very seasonal with higher numbers in the summer and lower in the winter (MICA)

3.3 Market Supplies

- According to Mintel reports (2006) that UK market is largely relying on the imported motorcycles, China is already a major source for importing followed by Italy, France and Germany etc.

3.4 Substitute Products

- There are several products that can be substituted motorcycles such as motor cars, bikes, bus and underground trains.

3.5 Barriers for Market Entry

Points to consider:

- The scale of economies: refers to falling costs in the product cost per unit as the absolute volume of production increase over a period. (Lipsey & Chrystal 1999) Thus in order to be profitable, Lifan needs to achieve certain level of economy scales in terms of sales
- Regulatory Policies
- Capital requirement in marketing new products and customer services.

- Customer perceived switching costs: how to pursue potential buyer to switch to the new brand at the lowest possible costs
- Access to a fully established distribution channels
- Competitor response to new entrant

3.6 Conclusion

Based on above analysis, we can summarise

Advantages

- Low proportion in ownerships
- High ownership growth rates
- Relying on foreign imports, especially from China

Disadvantages

- Market is already dominated by almost all the major brands in a broad range of products
- It is easy to be substituted by other forms of products such as car
- Entry barriers are certainly playing a big disadvantage

Verdict

- UK's motorcycle market is competitive based on
 1. Rivalry is strong,
 2. Strong competition from substitutes
 3. Customers have a strong bargaining position
- But it has a market potential due to
 1. High National Income
 2. Low political risk
 3. Current strong economic growth
 4. The ownership rate is low
 5. Market growth rate is high
 6. Soaring costs of fuel forcing some people to find an alternative form of transport
 7. Entry barriers are high

4. Culture Issues

Culture in terms of marketing is “a way of living by a group of human beings that are passed on from one generation to another,” (Keegan & Schlegelmilch 2001, 78) is an important subject, because of its ability in affecting the consumption behaviour. If Lifan does not recognise and understand the UK market culture, it can cause a business failure. Therefore there is a need to study and find possible solutions before hand

British Consumer Culture towards Motorcycle

- Motorcycles are perceived as an environmental sensitive product by UK consumers (Mintel 2006)
- It is normally associated with high rates of road accidents (Mintel 2006)

Solutions

- Environment friendly adaptation
- Marketing campaign to change the image

5. Conclusion

- Overall, evidence above shows that UK market certainly has a big potential for Lifan’s motorcycle products. Therefore it cannot be ignored and there is a need to move in as quickly as possible
- However in order to do so, there are a few obstacles to overcome such as entry barriers.
- Based on the analysis, this report would recommend some possible marketing strategies:

1. Target groups (based on previous findings in the buyers’ part)
 - i. Group A: young, single, male and middle low income
 - ii. Group needs: good quality, cheap price, economical to run and fashionable
 - iii. Group B: middle age, married, male/female, middle income
 - iv. Group needs: good quality, practical, safe to ride and reasonable price
2. To develop a new environment friendly product to match UK consumer culture and EU standard such as three wheelers with focus on its quality, practicality, fashion and economy. Positioning itself in the middle high range by functionality: thus to differentiate Lifan’s product with others in the same category and more importantly to increase customer’s perceived benefits

3. To lower its price by positioning itself in the middle low price range
4. According to Keegan (1999), these would lead to an increase in the customer value; create a better reason for customer to purchase. Therefore attract new customers
5. Entry model: two options, cut middle-man by direct selling from manufacture bases or franchise

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