

## CASE CODE 14

### 14 SCOOTERS INDIA LIMITED (B)

SIL initially had planned for manufacture of 2 wheeler scooters only. The production actually started in February 1975 while the decision to purchase old plant of Innocenti was taken in November 1971 and one factor that weighed in the acceptance of Innocenti offer over new plant from Piaggio collaboration was that the time required for the commencement of production would be only 24 months after taking the decision as against 42 months required for the creation of new plant.

The company developed a prototype scooter 150 cc (Brand name Vijay Deluxe) and sent it to Vehicle Research & Development Establishment (VRDC), Ahmednagar in November 1974 for technical trials. Certain technical defects were reported by VRDC to the government (after trial run of about 7000 kms), who in turn intimated these to the company and authorised it to go ahead with commercial sale of the scooter after removing the defects.

Subsequently VRDC reported to the government in October 1975, on the basis of trial run conducted in July as follows:-

- (i) There were no major defects during trials and endurance test.
- (ii) The scooter gave starting trouble and its piston rings were worn out after a run of about 10000 kms.
- (iii) The above defects were not rectified and the performance of the scooter was not satisfactory in these critical aspects.

The company, however, introduced Vijay Deluxe in the market once government clearance was received. The product "fell flat" in the market and tarnished the image of SIL badly. "It had to happen", said a senior executive, "when the production people are overruled in critical decision like introducing the product after full satisfaction of the shop. Here was a case when Chief Executive and Production head could never agree with each other and production people were overruled". The customers experienced serious problems with the scooter in starting. There were other problems of reliability as the product was of inconsistent quality.

### **Introduction of Vijay Super**

The failure of Vijay Deluxe led to hectic efforts to improve the product by rectifying the defect particularly cylinder and piston wear, vibrations, clutch plate slip, dim head light etc. The company appointed a set of consultants from 1977 to 1980 (see exhibit 5) to improve the acceptability and performance of the scooter. The company removed the defects pointed out by M Bianchi (former engineer of Innocenti) and introduced a new model Vijay Super. It had less starting

---

Prepared by Prof. Krishna Kumar & Dr. Arun Sahay of Scooters India Ltd.

The Case Material is prepared as a basis for class discussion. Cases are not designed to present illustrations of either correct or incorrect handling of administrative problems.

trouble, improved engine life and had brighter head lights. The company introduced Vijay Super in the market in September 1977 with a solid campaign using M/S Rediffusion as the advertising company. The product got market acceptability but could not come up to expectations raised, particularly it could not avoid the stigma attached to its being a "chain drive". The scooter did have some difficulty in chain drive due to material and heat treatment problems. However, the product could sell in "a seller's market" and the production level of about 30,000 scooter per annum could be reached. By the end of seventies most of the major problems were taken care of and Vijay Super was having growing sales performance.

## **Lambretta Centro**

The market conditions however, were changing fast. Although the scooter was selling, the management had realised that it was more the "seller's" market than the competitiveness of the product that was responsible for sales growth. The cost of fuel was rising and pressure for vehicles with high fuel efficiency was increasing. The main competitor Bajaj; was requesting government for permission to expand capacity. Several companies were negotiating for import of technology with a foreign collaborator whose product Vespa had achieved complete acceptability in the market There were few others who were trying to import technology for fuel efficient motorcycle. All such proposals were being pressed for government's permission to start manufacture. Mopeds had made inroads into two wheeler market by snatching away a large share of low income group segment.

Looking at these developments, management had started focusing on development of Innocenti's J-100 series scooter, which was the latest model developed by Innocenti before it wound up and sold the plant and machinery to SIL. It was a 100 cc scooter, highly fuel efficient (55km/litter as compared to 40km/litter of Vijay Super). The cost was also less (around Rs. 6000) as compared to over 8000 of Vijay Super. Around this time a high powered Japanese delegation visited the country and the Government enquired from SIL whether it would like to explore collaboration possibilities, before opening the gate for private sector. However, since the company was already in the process of introducing a cost effective product, it did not evince any interest. The product was not through the development stage for commercialization when the Bajaj Auto Ltd. Announced the introduction of 100 c Bajaj Cub model. Almost at the same time another 100 cc two wheeler Vespa PL 170 of A.P. Sector Ltd. With collaboration of Piaggio of Italy came in the marker. As if that was not enough collaboration with Piaggio came in the marker with Lohia Machine's 100 cc scooters. Bajaj auto had expanded its capacity of 150 cc and Lohia machines collaboration also covered 150 cc size. Right at that time highly fuel efficient Hero Honda, Ind-Suuki and Yamaha motorcycles came in the market. Combined with this was Kinetic Honda moped. The situation was changing fast. The company, therefore, rushed to announce the product and opened booking to coincide with the booming of Lohia Machine Vespa (100 cc and Bajaj Cub 100 cc. The booking was brisk and company was able to collect approx. Rs. 5 crore deposits for about 100,000 scooters.

The move, however, backfired. The scooter proved to have technical snags and had to be withdrawn from the market for a while for removing these defects. By the time these were removed and product put back into the market, the market had virtually rejected 100 cc scooters. Lohia Machines gave an option to its clients to choose either 100 cc or 150 cc. Bajaj Cub also did not pickup.

## **Three wheelers**

The agreement for transfer of drawing and equipment to manufacture three wheelers was entered

into in 1973. However, actual production could start only in 1977. The company did not lay much emphasis on this and initially it was limited only as a load carrier. It was only in early eighties that it came to be used as a passenger taxi when the sales and production picked up. Still it did not reach capacity level production as on the one hand the product as it is, did not have a large demand, on the other production capacity of two wheeler had to be sacrificed if 3 wheeler production was to be increased. Unlike 2 wheeler, the 3 wheeler did not face the situation of market rejection and there were no major technical snags noticed in it. Indeed, it cut into share of Bajaj three wheeler in certain areas.

Marketing of 3 wheelers faced a different kind of problem than 2 wheelers in large cities. The market was already dominated by 2/3 seater small three wheelers from API and Bajaj and also large capacity Bajaj "NOSE HEAD" tempos. With the capacity of 8-10 passengers it was not economical to use freely for any distance like 2/3 seater three-wheeler. They could thus run economically only from stand to stand. Moreover, the introduction of three wheeler faced organised opposition in other cities from man pulled rickshaws and animal driven tongas. In places like Delhi and Bombay it faced organised opposition from 2/3 seater three wheeler taxis. Technically the product was good. It gave about 18 km/litre of petrol and 25km/litre of diesel. There were no major complaints from dealers.

The company also made about 40 covered 3 wheelers for ambulance and as a 3 wheeler passenger car. It was more out of desire. to experiment than use it as a commercial proposition. Management felt that this product (3 wheeler passenger car) does not have much of potential, although it felt there was enough potential for low priced 4 wheel passenger cars, looking at the huge advance bookings of Maruti cars. The basis for management's dim view was' that cars are considered a status symbol and people would prefer to have a second hand four wheeler car than a new three wheeler one.

### **Power Packs**

The company had excess manufacturing capacity and therefore, undertook the supply of engines (power packs) to several other 2 wheeler manufacturers. Towards mid- seventies several state governments approached SIL for providing necessary technical support for manufacturing 2 wheelers (see exhibit 6). SIL accepted the request and agreed to supply the power packs and sheet metal components like panels etc. Other components they had to manufacture on their own, or arrange to purchase from outside. The company manufactured power packs against firm orders and, therefore, did not carry inventory of finished goods.

### **Mopeds**

SIL at one stage also planned to manufacture low power two wheelers, namely "mopeds". Indeed, in 1976, it acquired a part of Ganesh Flour. Mills (Delhi), its fans' unit. The Ganesh Flour Mills had become sick and was taken over by government, who was looking for a prospective buyer. SIL took over the company on lease basis in 1976 to utilise its space for manufacture of "mopeds". The project never materialised as management finally decided to abandon mopeds project after deffering it for several years. The unit, therefore, continued to manufacture only fans (see exhibit 2 of SIL (A) Case).

## **Cost Components**

Except raw material cost, almost all the other components of factory costs were fixed costs (see exhibits 7 & 8). As most of the facilities of 2 wheelers and 3 wheelers were common, allocation of even direction labour cost was difficult. The selling and distribution expenses too were variable costs as the company had employed contractors for shipping of goods to the dealers.

## **Marketing Strategy of the Company**

"There was little in the name of Market Research that we could do", said one member of the top management. "We were set up to manufacture scooters, so we started doing that. What else could we do? The task of marketing was principally that of distribution, particularly in view of the large demand and supply gap that existed in those days. Production had been a bottleneck. Till recently we could always sell whatever we produced. We could not be market leaders because our main competitor i.e. Bajaj, had technology which was accepted in the market. The entire R & D efforts all along were focused on indigenisation programme only. Market Research has become important now when there is glut in the market with several competitors having come in the market. Our facilities are to be utilised and we have to find out customers for it".

"People's psychology is difficult to change," said the General Manager (Marketing) "They think 100 cc is less powerful and hence inadequate for the duty 150 cc scooter are capable of. It is so difficult to convince them that it is due to advanced technology that such high fuel efficiency engines are able to give adequate power with a very low fuel consumption". The sale of 100 cc never took off as expected. The major share in output remained in 150 cc two wheeler (see exhibit 2 ).

The wide demand and supply gap and production bottlenecks were the underlying factors for company shying away from intensive advertising. By and large it was confining to the introduction of different models of two wheeler. Of late when there was heavy advertising by competitors, the company could hardly spend heavily on the advertisement. While SIL never spent more than 35 lakhs in a year throughout its operations, the competitors expenses on advertising ranged from Rs. 1 crore to 10 crores.

"Frankly," said another top executive, "it is the lack of customers orientation than anything else responsible for any market research and product development. Customer was an enigma for the first generation of top executives. They had background of only giving orders all along in their life. It was too much for them to subordinate themselves to the customers' wishes. They hardly believed the product will sell only if customers wanted to have it. The tug-of-war between marketing-design-production has been an undying phenomenon here throughout."

The company products being highly competitive, the company was never in a position to decide price of the product on the basis of costs. Pricing was generally based on the industry position and price adopted by competitors for their products, and the gut feel as to which price will boost the sales. Besides it was also difficult to determine actual cost as the production level and production varied from period to period. The company had never been able to realise all the cost. It started with pricing at a loss and continues to do so.

The company product line was predetermined by its very establishment namely the two wheeler

and three wheelers. The company Management felt that they would not be given a licence to diversify to, say, manufacture a four wheeler passenger car. Converting three wheelers into passenger cars was not considered to be a feasible proposition as the company management felt four wheeler is a status symbol and could not be substituted by a three wheeler.

Besides the Vijay Deluxe, the new products Cento (100 cc) and Vijay Super models (Mark I & II) were generally based on the market response given by the dealers or what the designers and others in the company thought the product should have. No such thing like independent market research was conducted by the company for the purpose. This led to occasional and unplanned additions and deletions in the accessories. To what extent it led to increase in sale is not easy to answer. However, it definitely multiplied problems in managing bought out items and efficient inventory management,

As a matter of policy the company did not go for the "traditional" dealers channel for distribution of the scooters. Instead a novel scheme was developed keeping in view the national policy of helping the unemployed youths. Several young unemployed were recruited and trained to be the regional outlet engineers. They also enjoyed commission on sales made. Generally they did not have any background of automobile sales and service. Recruitment too had external and internal influences. The policy, however, had to be abandoned after sometime in favour of the "traditional" dealerships as the Regional Outlet Engineers could not deliver the goods. They were, however, given the option to retain the agency as independent dealers. But most of them opted for employment with the company. In the new set the dealers had no obligations to sale/ service on SIL products alone. Most of them had taken up some other brand of two wheelers as well.

"There have been occasional failures in market planning," said one top executive. "For instance, while introducing "Cento", we were virtually racing against time. We had made, for once, a highly successful campaign with the help of an advertising agency and had secured advance booking of over 100,000 scooters. While introducing it fast, giving maximum pressure to production, the priorities went to production of finished goods. Back up spare supply was overlooked, as it happens. As a result, when the product developed trouble we had to virtually take back rejected pieces to the factory".

"Our product has very high material component," said another top executive of the company. "Almost 20% higher than the competing products e.g. Bajaj 150 cc. It costs us around Rs 2000 more than the alternative. This more than off-sets whatever advantage we expected from the low investment by virtue of old plant and machinery. We can't bring any basic design change as this would imply huge investments. We can thus make marginal changes here and there, trying to improve the product. We had distinctive advantage in Cento, which had lower material cost and virtually no additional investment. Unfortunately the product failed. To some extent we are also responsible as we loaded the product too heavily with overheads as the sale of other products dwindled, bringing the price of 100 cc almost as much as the 150 cc while the actual cost was far less".

### **Costing System of the Company**

The system followed by the company was based on absorption costing: principally having certain elements of budgeted/standard costing systems. The cost accounting records' were compiled on annual basis only i.e. at the year end. As per the Cost Accounting Records (Motor Vehicles) Rules 1969, proper cost accounting records, were to be maintained by the company which are subject to cost audit as and when ordered by the Company Law Board. The basic elements of the company's cost accounting system are given below:

**a) Material Cost**

The design section prepared the bill of material for each vehicle. Standard material norms were available for each item listed in the bill of material. Periodically the material norms were updated by applying the prevailing procurement rates (major sources rates) and standard material cost for each vehicle was thus ascertained

**b) Direct Labour Cost**

Direct labour cost included monthly wages, overtime payments, provident fund, ESI contribution by the company and other identifiable expenses of labour like conveyance, leave travel concession etc. in respect of workmen engaged in production cost centres. These were allocated to major products in proportion to the standard man hour of number of vehicles, procured. Like bill of material, there were standard hour norms for each type of product. The facilities being flexible, the product could be represented in equivalent man hour for 2 wheelers.

**c) Overheads**

It included salaries of the entire staff except workmen staff (with respective contributions towards conveyance, LTC, PF, ESI, expenses), in-house medical and canteen facilities, consumables, power and fuel, maintenance, insurances, R & D expenses, depreciation, administrative expenses (like postage, stationary, bank charges, advertisement etc.) and other miscellaneous expenses.

These were also allocated on the basis of standard man hours of total vehicles produced in a year.

The company operated through cost centres. The management felt that it was difficult to operate through the profit centre concept due to high pooling of plant and machinery for different lines. The cost centre also helped the executive in closely monitoring and controlling the costs. The executives controlled the operation through the contribution each product made. Most of the costs (except material, selling and distribution cost), taxes, excise duty etc. were fixed cost. The, plant and machinery had even a de-rated capacity of 6000 two wheelers and 2500 three wheelers per month, while the manpower had already been recruited to reach the capacity of 100000 two wheelers. There had been increased labour content due to higher rejection rate caused by old machine tools. Still it was felt the company was footing the wage bill far in excess of full capacity production.

**Questions**

- (a) Evaluate the marketing strategy of the company
- (b) What should the company do now?

EXHIBIT 6

PROFILES OF CHIEF EXECUTIVE',

SRI S. SOUNDARARAJAN, CMD  
(NOV. 72 TO JAN. 79)

Born 21.4.1926  
Qualification B.Sc. (Hons)  
Experience I.A.S., 49Batch  
Dy. Secy. Min. of Defence, GOI  
From Nov. 58 to Dec. 64  
M.D. Garden Reach Workshop, To June 73.  
Calcutta, Jan. 65 to Nov. 72

SHRI V. KRISHNAN  
(JUNE 79 TO MARCH 81 : CMD)  
(JUNE 73 TO JAN 79: GMT-PROD.)

Born 20.6.1929  
Qualifications BE (Hons)  
Experience Trainee, DGOP from Nov 52 to Nov 55  
AWM, DGOF Gum & Shell Factory,  
Nov. 55 to June 72  
GM, Ishapur Rifles, June 72 To June 73  
ED, SIL, Jan 79 to June 79.

SRI V.K. GHAI (BRIG), ED  
(MARCH 81-SEPT. 81 EXECUTIVE DIRECTOR)  
AUG. 74- MAR. 81 GM-MARKETING)

Born 6.9.1923  
Qualifications 1<sup>st</sup> Yr. (Science), NDA Graduate  
Experience Army Service, UNO Assistant

SRI L.K. JOSHI, MD  
(SEPT 81-MAR 84)

Born 19.7.1930  
Qualifications M.Sc. LLB.  
Experience Asstt/Dy. Controller, CDA, 1954-1961  
F.A.&CAO, NDCC, Jan 61-Jun 64  
Jt. Controller, CDA, Dec 65-Aug 66  
Dy.Secy. (FEB) & Chief Auditor,  
Deptt of Eco, Affairs, Finance Ministry  
Du. Cont. Genl. (A/C) – Audit, CDA  
Div. (Fin) FA, BEML, Mar 71 to Dec 78  
Div (Fin), HAL, DEC 78 to Sept 81

**SRI P.S. KAPOOR**  
**(JULY 84 ONWARDS)**

Born 7.4.1934  
Qualifications B.Sc. (Mech)  
Experience Indian Railways (1959- )  
Last Designation: Ch. Mech. Engr. CLW,  
Chitharanjan

**GMs OTHER THAN THOSE WHO BECAME CEO**

**SRI M. VARDARAJAN, GM**  
**(JANUARY 74 TO MAY 76)**

Born 10.5.1933  
Qualifications M.A., BL  
Experience IAS, 55 Batch  
Commr & Secy (Medical) U.P. Govt.

**SHRI L. LAL, GM (COMMERCIAL)**  
**NOV. 76 TO JULY 82)**

Born 20.7.1933  
Qualifications M.B.A. (Vancouver), Canada  
Experience Lecturer, Commerce, BHU  
November 1959-April 60  
BDO, Govt. UP, 1960-63  
A/C Offr., Shri Ram Rayons, 1964-67  
Matls. Mgr. , Jagajit Industries, 1968-72  
Matls. Mgr., Danfoss I. Ltd., 1972-74  
Matls., Mgr., Cutler Hammer I. Ltd, 1974-76

**SRI P.D. JOSHI, GM (MFG)**  
**(NOV. 80 ONWARDS)**

Born 11.6.1935  
Qualifications BE (Civil)  
Experience SRF, CSIR, Feb. 59-July 60  
Lecturer, Roorkee University, Aug. 60 to Dec. 60  
AM, Khamaria OF, Dec. 60 to Oct. 64  
DM, Khamaria OF, Oct. 64 to Nov. 68  
Mgr, Khamaria OF, Nov. 68 to Dec. 75  
DGM (Prod.), SIL, Nov. 79 to 80

**DR. A. SAHAY, GM (MKTG)**  
**(OCT 80 ONWARDS)**

Born 1.1.1942  
Qualifications M.Sc, Ph.D (Foundry) Czechoslovakia  
Experience Asstt. Lecturer, RII, Jamshedpur Jul. 62 to Mar. 63

Engr, HEC Ranchi, Mar. 63-Oct. 73  
Supdt, Tata Yodogana Ltd, Jamshedpur, Oct 73 to Mar 74  
Fdy Mgr, Lakshmi Machine Works, Coimbatore, Mar  
74 – May 77  
GM-II, SIL, May 77 to Oct 80

SRI V.K. KHANNA, GM (T)  
( JAN 85 ONWARDS )

Born  
Qualifications  
Experience

3.3.1936  
B.Sc. (Mech)  
AE, Jay Engg. Works, July 57 to 62  
Ch Engr (Plng), HMT, Pinjore, Oct 62 to Aug 70  
Tech Expert, Haryana, Govt. Aug 70 to Jan 74  
WM, Usha Telehoist, Faridabad, Jan 74 to Nov 74  
Fy Mgr, American Refrigerators, Pune, Nov 74 to  
Sept 81  
OSD,SIL, Sept 81 to Dec 81  
Gm, SIL, Jan 82 to Jan 84

EXHIBIT – 7

PRODUCT-WISE CONTRIBUTION TREND ANALYSIS  
(Based on Purchase Orders/Amendments Received)

Sl. No.	Particulars	As	On	Increases/ During
				7/86 (+) / (-)
		30.6.86	31.7.86	
1.	Vijay Super Mark II With Optional Items			Rs.
	1. Basic Price	7815	7815	
	2. Meterial Cost	5077	5090*	+13
	3. Contribution (1_2)	2738	2725	-13
II.	Vijay Super Mark II	Without Optional Items		
	1. Basic Price	7335	7335	
	2. Meterial Cost	3441	4754*	+13
	3. Contribution (1_2)	2954	2581	-13
III	Lambretta Cento			
	1. Basic Price	5797	5597	
	2. Meterial Cost	3878	3879*	(+)1
	3. Contribution (1_2)	1719	1718	(-)1
IV.	3-Wheeler Drive away Chasis (Petrol)			
	1. Basic Price	20070	20070	
	2. Meterial Cost @	15300	15309*	(+)9
	3. Contribution (1_2)	4470	4761	(-)9
V.	3-Wheeler Drive away Chasis (Diesel)			
	1. Basic Price	31950	31950	
	2. Meterial Cost @	25639	25648*	(+)9
	3. Contribution (1_2)	6311	6302	(-)9

Note: @ Meterial Cost analysis is based on LDA 510 GLL Engine

\* Modvat benefit is adjusted against material cost as per detail given on below.

Amount of Modvat benifit	
Vijay Super Mark II with Optional Items	Rs. 432/-
Vijay Super Mark II without Optional Items	Rs.400
Lambretta Cento	
3-Wheeler Drive away chassis (Petrol)	Rs. 1557/-
3-Wheeler Drive away Chassis (Diesel)	Rs. 1597/-
	Engine is coming against from CT2

Note: Material costs do not include balance of pending proposals as on date and impact of fluctuation in foreign exchange rates on imported materials.

EXHIBIT-8

COST BREAK-UP OF THE OPERATIONS (1985)

		Fixed Cost	Variable Cost	Total Cost
1.	Employee Renumeration	758		758
2.	Power	28	82	110
3.	Fuel (Furnace Oil)	30	20	50
4.	Stores, Spares & Tools	4	159	163
5.	Maintanance	65		65
6.	Research & Development	8		8
7.	Material Handling/Transit Insurance	5		5
8.	Depreciation	160		160
9.	Administrative Overheads	77		77
10.	Selling/Distribution Overheads (excluding freight outward)	35	33	68
11.	Interest-C.C./O.D.	215		215
12.	Interest on other Long/ Short Term Loans	805		805
	Total	2190	291	2481

Sale Price of the Vehicle (91985) Vijay Super-Rs. 7475/-